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Commission on
Financing
Kindergarten to
Grade 12 Education

Ray Boughen
Commissioner

OCTOBER 2003

FINDING *the* BALANCE

Interim Report

Commission on
Financing
Kindergarten to
Grade 12 Education

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104-02357/
OCTOBER 2003

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A message from the Commissioner

1

Minister Melenchuk and Minister Junor,
I ask that you accept this document as the interim report of the Commission on Financing K-12 Education. I would also like to take this opportunity to thank you for the privilege of working on this very important provincial issue.

The Commission was struck on May 2, 2003. You charged my team and me with reviewing the current system of funding kindergarten to grade 12 education and making recommendations for change. While we are only midway through our mandate, I am pleased to report that we have made significant progress.

After reviewing our mandate, terms of reference and principles, my staff and I decided to take a two-track approach. We would research literature from around the world. We would also conduct a series of public consultations and one-on-one meetings with interested individuals and groups. We felt that this would give us sufficient opportunity to hear what Saskatchewan tax payers had to tell us about the financing of K-12 education.

We developed five discussion guide questions along with a presentation, a brochure and an evaluation form. These were used at all public meetings as a vehicle to stimulate discussion and generate ideas. We found that the documents also prompted a number of ideas that were very useful to the Commission. At the end of the presentation, participants worked through the discussion guide in groups. The groups then had the opportunity to report back to the meeting. This gave people time to ask questions and share ideas about changing the way K-12 education is currently funded. An evaluation sheet gave the Commission feedback about the logistics of the meeting.

In keeping with the technology of the day, the Commission established a Web site and an email address. This strategy has proven most useful. We have received numerous comments and inquiries via email and traffic to our Web site continues to grow.

To date, we have met one-on-one with more than 50 interested individuals and groups.

Nearly 600 people have attended our public meetings and almost 100 have submitted written briefs to voice their opinions on the use of property taxes to fund K-12 education. Everyone has impressed us with their constructive comments and professional manner. The number of written briefs grows daily and requests for meetings continue to come in. Finding the most appropriate way to fund K-12 education won't be easy, but the people of Saskatchewan have risen to the challenge.

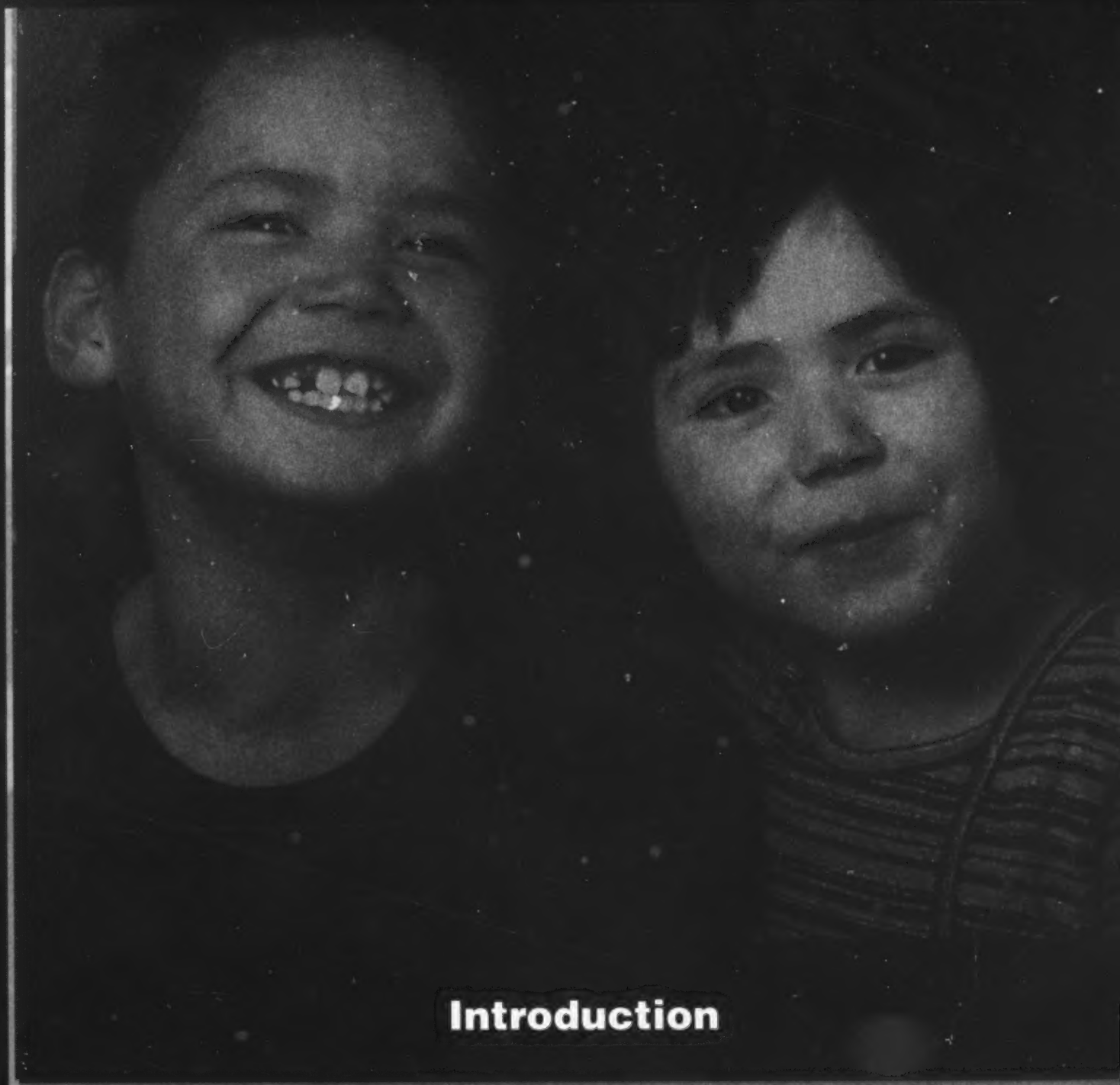
We were also asked to involve stakeholders in the education system to ensure their issues received a full hearing. We are working with groups such as Saskatchewan Association of Rural Municipalities, Saskatchewan Urban Municipalities Association, the Saskatchewan School Trustees Association and the provincial government. We also worked closely with the regional directors of education to ensure that we maximized input from people across the province.

This report outlines what we have heard in our consultations and what we have found in our research thus far. After further research and additional public input, we will present a full report of our findings to the Ministers of Finance and Learning by December 31, 2003.

I would be remiss if I didn't acknowledge the fine work done by my Executive Director, Ken Horsman. Ken has been tireless in his work on the Commission. From the large issues to the smallest detail he has dealt with it all in a very positive, facilitating manner. I would also like to acknowledge the fine support and work ethic portrayed by my entire team. The long meetings, the miles of travel throughout the province and the dedicated hours in the office will all go toward making this one of the finest studies on financing K-12 education ever conducted in the province.

Ray Boughen
Commissioner

This report outlines what we have heard in our consultations and what we have found in our research thus far. After further research and additional public input, we will present a full report of our findings to the Ministers of Finance and Learning by December 31, 2003.



Introduction

2

Many years ago, the people who settled Saskatchewan realized that children needed an education. That realization has never been truer than it is today. In one lifetime we've moved from little red school houses dotting the prairie to a highly sophisticated system that offers everything from pre-kindergarten to Calculus and Electricity. We've come to believe that a quality education is a fundamental right for every child, regardless of his or her ability, and that a school is much more than a place of learning. It is the centre of learning, support and community for children and their families.

All of this has had a profound impact on our education system, including how it's financed. In recent years, concerns about the financing of kindergarten to grade 12 education have peaked as the province's share of the cost dipped below 50% and most people faced continual increases in school property taxes. For many, the final straw was the significant changes brought on by reassessment processes in 1997 and 2001. In May 2003, the provincial government formed this Commission to review the situation and identify options for change.

We were asked to look at the balance of property tax and other taxes used to fund K-12 education. We were asked to look at the balance between what the province contributes and what school boards contribute. We were also asked to look at fairness and equity among different classes of property tax payers and equity for students and ratepayers in different school divisions.

If there's one issue that can raise strong emotions, property tax is it. There has been no shortage of people willing to share their thoughts about how K-12 education is financed. Nearly 600 people came out to a series of 16 public meetings across the province. To date more than 50 groups and individuals have taken the opportunity to meet with the Commission one-on-one and nearly 100 have submitted written briefs. Many more have called our offices, written letters and sent emails. All are passionate in their belief that the current system for funding K-12 education needs to change.

The basis for this report is what we've heard in our meetings, what we've read in written submissions, letters and emails, and what we've found in our initial research. It outlines the most common themes, suggestions for implementation and suggestions for change the Commission received over the last five months.

In our discussions with people across the province, two messages were loud and clear. First, we heard that, like healthcare, education is a fundamental right that benefits everyone in society. Therefore, everyone should equally share its cost. Second, virtually everyone we heard from believes education property taxes are too high. Several other themes emerged from our meetings and discussions. They are:

- Property taxes are unfair.
- The province should contribute more to the cost of K-12 education.
- The education financing system creates inequities among school divisions.
- The property tax and assessment systems are not working.
- School board autonomy is an important issue.
- The Foundation Operating Grant is not working.
- Expenditures need to be examined.

We received a wealth of helpful comments, examples and information to help us clarify the issues around the financing of K-12 education. Everyone acknowledged that finding the right balance was a complex task that would

If there's one issue that can raise strong emotions, property tax is it. There has been no shortage of people willing to share their thoughts about how K-12 education is financed. Nearly 600 people came out to a series of 16 public meetings across the province. To date more than 50 groups and individuals have taken the opportunity to meet with the Commission one-on-one and nearly 100 have submitted written briefs.

We encourage people to take this report for what it is: a summary of what we've heard and what we've found to this point.

Finding the appropriate balance for financing the province's K-12 education system will not be easy. This issue touches virtually everyone in the province and it will be impossible to please everyone. However, if the level of support continues, we're confident the Commission can come up with practical recommendations that address the common concerns expressed by the people of Saskatchewan.

take time to resolve. Most importantly, people rolled up their sleeves to help identify solutions that ranged from changes to existing taxes to new fees and charges, and changes in school board and provincial expenditures.

We encourage people to take this report for what it is: a summary of what we've heard and what we've found **to this point**. You will note that this report does not include any recommendations nor does it draw any hard and fast conclusions. Neither would be appropriate at this point. The deadline for written submissions is still a month away, and our work is far from over.

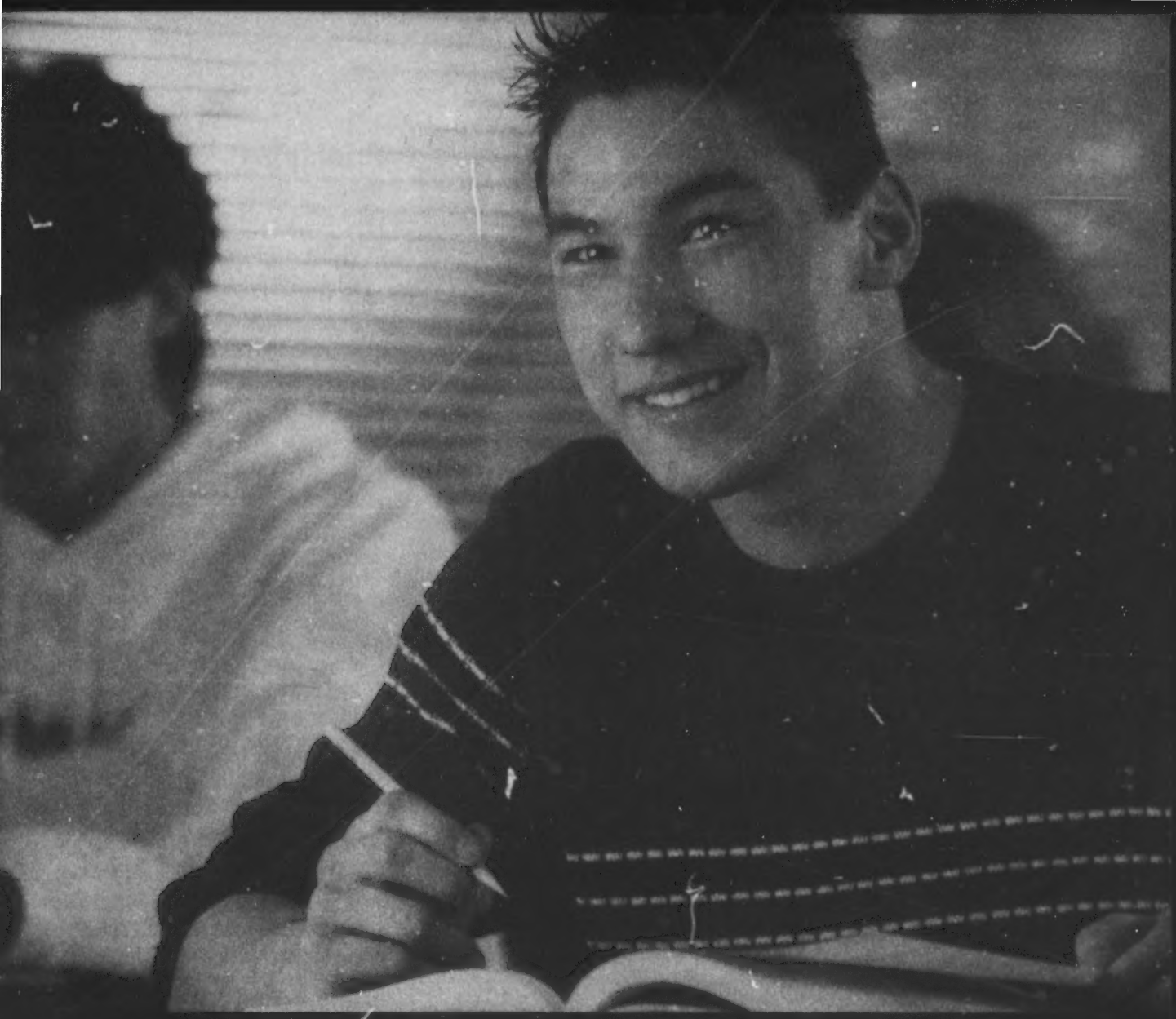
We encourage people to provide feedback on what the Commission has heard so far. This report is designed to act as a basis for further discussion. It also identifies areas that warrant more investigation. We have reviewed mounds of research and analyzed countless statistics; however, we need to do more to gain a better understanding of the full breadth and depth of the issues and potential solutions.

Finding the appropriate balance for financing the province's K-12 education system will not be easy. This issue touches virtually everyone in the province and it will be impossible to please everyone. However, if the level of support continues, we're confident the Commission can come up with practical recommendations that address the common concerns expressed by the people of Saskatchewan and a fair way to finance a high quality K-12 education system for all Saskatchewan students.

Acknowledgements

As we continue on our journey to ***Find the Balance***, we want to extend our sincere appreciation to everyone who has taken time out to attend our meetings, develop briefs and meet with us. Your passion for the topic and dedication to the province's children is clearly evident. We look forward to receiving additional feedback before we begin formulating recommendations and writing the final report.

We also want to thank the staff of a number of government departments in Saskatchewan and across the country who have provided us with statistics, background and resource materials.



Mandate and process

3

"Changing the taxation system is a complex issue."

"Good process – thanks."

"I do hope the government will implement the new changes that you may recommend. Dare to be different!"

"Good feedback from the floor."

"Not enough time for discussion."

"At the end of the day, I hope that both the commission and the government of the day listen to the people, the taxpayers, and continue to fund education fairly and effectively and efficiently. Thanks."

"Found the viewpoints of others valuable."

"Very good session!! Good Luck!"

Comments by participants at public meetings

In May 2003, the government of Saskatchewan established the Commission on Financing Kindergarten to Grade 12 Education. The Commission's purpose is to engage the education community, municipal governments, provincial government and the public in meaningful and informed dialogue on the financing of kindergarten to grade 12 education in this province. The purpose of these consultations was to answer the question: *What is the best way to finance K-12 education in Saskatchewan?*

Mandate

The Commission was asked to examine issues, identify options and make recommendations, taking fully into account the range of implications for each option, with respect to the following:

a. the appropriate balance between provincial and board of education contributions to the financing of K-12 education

b. the appropriate balance between the use of property tax and other sources of taxation to finance K-12 education

c. fairness and equity among the existing classes of property (agricultural, commercial and residential) in financing K-12 education

d. local fiscal capacity among school divisions and variations in assessment and spending per student among school divisions, including impacts on access to high quality education for students and on equity among taxpayers

e. any other issues respecting the financing of K-12 education that the Commission and the Government of Saskatchewan agree should be addressed by the Commission

Principles

The Commission is guided by the following principles:

a. sustain high quality, publicly funded education programming

b. ensure equity of student education opportunities across all school divisions

c. ensure equity and fairness for all education property taxpayers (agricultural, commercial business and residents)

d. maintain or improve tax competitiveness in Saskatchewan

e. ensure fiscal sustainability for boards of education and the province

f. maintain school division autonomy and ensure continued accountability of boards of education

g. improve tax fairness and simplicity of tax administration in Saskatchewan

Activities to date

To achieve its mandate, the Commission began a public consultation process and a program of research. Both initiatives were designed to ensure that the Commission:

- was well informed of the views and opinions people hold about the issues
- understood the facts of the matter at hand

Public consultation

The Commission's public consultation process had two purposes. The first was to hear the issues from the point of view of the public and stakeholder groups. The second was to gather proposals for resolving the issues. To accomplish this, the Commission used several approaches.

During our first month of operation, we sent letters of introduction to

numerous interested parties, announcing the Commission and inviting participation. The Commission also met with key educational organizations and municipal and provincial government bodies.

Early on, the Commission decided to ensure that all of its work was public information and readily available. All material produced by the Commission along with research material and briefs submitted by individuals and groups is posted on our Web site. Traffic to the site has grown steadily throughout our process.

In June and August, 2003 the Commission held evening public meetings in 16 communities across Saskatchewan. The meetings were publicized through local newspapers and radio stations and promoted in news releases. Nearly 600 people attended these two and one-half hour meetings, at which we provided:

- information about the Commission and its activities
- background about the current approach to financing K-12 education in Saskatchewan and across Canada
- an opportunity for people to share their views with each other and the Commission

Most who attended the meetings were involved at some level in the education financing process. The majority of people attending were school trustees, municipal councilors, small business people and farmers. We also heard from parents, grandparents, people without children, retirees, and parents who home school their children. After group discussions, participants completed a discussion guide or questionnaire that focused on the Commission's main areas of investigation.

Participants were asked to evaluate the information provided by the Commission and the value of the opportunity to hear, share and discuss the issues. Between 250 and 260 people responded. More than 96% thought the format of the meetings gave them an opportunity to share their views and thought hearing and discussing the issues with others was valuable. About 92% thought the information provided by the Commission was easy to understand and helped them understand the issue.

The Commission met one-on-one with over 50 interested individuals and groups prior to or between public meetings. More of these public meetings have been scheduled over the next two months. These meetings provided an opportunity for more focussed and personal input. Many of these groups submitted briefs to the Commission.

Submissions

The Commission is accepting written submissions until November 7, 2003. To date, we have received nearly 100 submissions from groups and interested individuals.

Toll-free line

The Commission established a toll-free phone line for people who wished to speak directly with the Commissioner about their concerns.

Research and analysis

To ensure the Commission was well informed about the issues and facts surrounding this matter, we focused significant energy on reviewing literature and gathering information from other provinces, government departments and interested parties. The Commission always met strong support in its efforts to seek information.

Although the work of the Commission was generally organized around the four main goals in our terms of reference, it was also heavily influenced by the assertions and questions raised during the public consultation process.

"Ray Boughen opened with the statement we are hearing about the unfairness over and over... please hear them and act on what you are hearing."

"Don't let this study get shelved with the millions of dollars worth of the other studies."

"Great forum. Great discussion. However, outcomes are everything. Just talking about change is not enough."

"Very lop-sided views – too many 'school' people – not enough Joe publics. Again the organized lobbyists get to be heard! Everybody should be paying education taxes – not just property owners."

Comments by participants at public meetings

Assertions

4

Over the past few months, we have heard many things about the current system of financing K-12 education. We have sorted them into a number of themes or assertions to bring focus to our review.

The importance of K-12 education to our province is the over-arching principle that has set the stage for our discussions. The public and other stakeholders have been clear about their belief that K-12 education is critical to the future of the province. It is generally considered a broad social responsibility that benefits all of society – something that everyone should support.

The Commission was also reminded that the financing of the system needs to be based on principles like equity, sustainability and quality of education.

We continue to receive input from the public and interested parties, and are undertaking more research. At this point, we would like to share what we have heard so far and offer some insight into what we have learned.

The comments and suggestions we heard were numerous and varied. We've grouped them into the following themes or key assertions:

1. Education property taxes are too high.
2. Property taxes are unfair.
3. The province should contribute more to the cost of education.
4. The education financing system creates inequities among school divisions.
5. The property tax and assessment systems are not working.
6. School board autonomy is an important issue.
7. The Foundation Operating Grant is not working.
8. Expenditures need to be examined.

For each assertion, we outline what we have heard so far in our consultations and what we have found so far in our preliminary research.

Although these are the common assertions we heard, it's important to note that not everyone agreed on these points.

"Education is one of the chief cornerstones on which this society is based, ensuring that future generations have access to resources and services to let members of society gain knowledge, develop and mature into life long learners and become productive members of society. This is a fundamental right and thus the funding to support that initiative must be based on sound principles and supported equitably by all members of society and by all parts of the province."

Saskatoon (West) Board of Education

"All education funding, including K-12, must be moved up on our priority list to equal health care. Well educated, highly skilled people are key in keeping pace with a global knowledge based economy. We simply have too much at stake to be left behind."

Kindersley Town Council

Assertion #1 – "Education property taxes are too high."

Property taxes consist of municipal taxes, which fund municipal governments, and school taxes collected by municipalities but calculated and spent by local school boards. In some cases, library taxes used to support local libraries are a part of the equation. Property tax in Saskatchewan is paid by homeowners and landowners on residential, seasonal residential, commercial, industrial, and agricultural property. Indirectly, renters also pay property tax through their rent. The most common view in our meetings and written submissions to date is that property taxes, and education property taxes in particular, are too high.

What have we heard?

Regardless of the type of property people owned or the group they represented, the resounding opinion was that:

- Property taxes are too high.
- Property taxes are regressive and not linked to the ability to pay.
- Our heavy reliance on property taxes for education is inappropriate.

Residents of cities and towns, farmers and business people, owners of acreages and those with cottages – people from all walks of life expressed these concerns. Most compared their situation to that of people in other communities or neighbouring

provinces. They pointed out that the tax load on comparable properties is much higher in Saskatchewan. Most feel their own property tax burden is too high. All feel that the province relies too heavily on this type of tax to fund education.

People are concerned about overall property tax levels; however, they generally assert that it is the education portion of the tax that has been growing dramatically. This is what most people take issue with. Many school divisions acknowledge this fact. Some recognize that their rate-payers are "taxed to the limit". They fear a revolt if they raise mill rates again. The Rural Municipality of Lost River told us that its council feels unable to raise the municipal mill rate due to the impact it would have on local farm families. As a result, it has delayed maintenance of infrastructure and replacement of equipment.

The Rural Municipality of Hillsdale shared some information on the impact of property tax on rural and urban residents due to the shifting population in that area.

"I moved on the acreage in August 1999. My taxes were $3200 and are now $7400. More than double in three years."

"We, as retirees, will be unable to reside in this area if our taxes continue rising to this extent."

Residents of Corman Park

"The last three years have brought the common comment from ratepayers that they have no problem with the municipal portion but resent the extreme levy of the education tax."

Bruce Kosolofski, RM of North Battleford

"Taxes are our biggest expense after the mortgage and in years like this there isn't much left after paying the taxes and lease fees.

... Please reconsider your method of taxation and the amount collected through property tax."

Bob Taylor

"Most people are not objecting to paying tax but they would like to see fair taxation. In the years 1986 to 2003 the following (has occurred for) the rural taxpayer versus the small urban taxpayer:

R.M. of Hillsdale

	Population	School Taxes	Cost Per Capita
1986	610	$401,994.68	$659.01
2003	566	$1,102,300.14	$1,947.53
Percentage change in school taxes paid per capita			***196% increase***

Village of Neilburg

	Population	School Taxes	Cost Per Capita
1986	355	$87,566.18	$246.67
2003	366	$106,268.20	$290.35
Percentage change in school taxes paid per capita			***18% increase***

"Does this look like fair taxation?"

RM of Hillsdale

Perhaps the most vocal group on the topic is the agriculture sector. This sector has been hit hard in recent years and farm incomes have declined. But the property tax bill – a large expense for most – demands payment regardless of profit. Some farmers are finding it more and more difficult to pay a bill that, in many cases, grows each year.

With agriculture being such an important part of our economy, many businesses are feeling the impact of declining farm incomes. The Commission heard often that high property taxes affect business and economic development throughout the province. Urban and rural municipalities report that property taxes have stifled economic activity in their communities.

The Association of Regina Realtors Inc. stated that 94% of its members report that property taxation has negatively affected the real estate market to some extent. In the past five years, 80% of the association's members say they have

personally been involved in a real estate transaction negatively affected by property tax. Likewise, the City of Moose Jaw says that increasing property taxes have had an impact on development and housing starts in that city.

In its submission, The Saskatchewan Home Builders' Association said that high property tax deters people and business from investment in property. Lower residential property taxes, on the other hand, stimulate more housing starts and renovations. The Association shared estimates from the Canada Mortgage and Housing Corporation (CMHC) which show that an average priced new home creates roughly three person-years of employment in direct jobs (construction), indirect jobs (to provide materials and other inputs) and induced jobs (the multiplier effect on the economy resulting from the spending of incomes generated in the direct and indirect jobs).

The North Saskatoon Business Association Taxation Committee suggested that higher income earners, who own larger homes, invest in business properties and businesses, and tend to create new wealth and opportunities, are also the most mobile members of society. The committee suggested that these income earners provide significant contributions to the tax system and when they leave, it affects property values and revenue growth.

Finally, people reminded us that concerns over property tax levels are not new. The Saskatchewan Association of Rural Municipalities (SARM) included in their brief, a resolution that was passed at its annual convention in 1964. The Association points out that since that time many resolutions have been passed, many papers have been written and meetings have been held on the issue. People are concerned that this topic has been debated for decades with little or no change.

What have we found so far?

Not only has this issue been around for a long time, it has been studied a good number of times as well.

In 1965, The Royal Commission on Taxation found that education was the largest single expenditure for municipal governments in the early 1960s and the school property tax represented almost half of the total property tax bill in the province. The Commission predicted that the cost of education would continue to increase substantially and concluded that "it is to be doubted if the total property tax bill can be safely pushed much further without, in many instances, passing the point of tolerability."[1]

The City of Saskatoon established an independent Tax Review Committee in 1997 to look at many tax issues, including the funding of education. The Committee concluded that "allowing property taxes to get too high is punitive to those whose 'wealth' is solely or largely in the form of property, whether that is a residence or a business."[2] The Committee recommended that the province shift the burden of education funding from property tax to provincial taxes and to reduce the reliance on property tax to a maximum of 40% over five years.

The Canadian Taxpayer's Federation has also called for "meaningful action to reduce education and property taxes and to reform the tax system and eliminate the problems inherent in the property tax system".[3]

"With respect to the concern over property and education taxation among our agri-business members, CFIB found that Saskatchewan's level of concern is among the highest in the country. CFIB calls on the government to examine ways to bring down the 'effective tax rate' on agricultural property towards the provincial average in Canada."

Canadian Federation of Independent Business

"... housing starts are dramatically reduced as a result of the cost of property taxes. The City has partially been able to reverse this trend by introducing a housing incentive program wherein property taxes are phased in over a five-year period on new construction in designated areas. While this has increased housing starts, it is still only dealing with the periphery of the problem. People simply are not building new houses because they perceive that property taxes are too high."

City of Moose Jaw

[1] Royal Commission on Taxation. Report of the Royal Commission on Taxation. (Regina, 1965)

[2] Osborn, A., Brown, S., Vicq, J. Saskatoon Tax Review Committee Report. Tax Review Committee. (Saskatoon, 1997)

[3] Canadian Taxpayers Federation, Property Taxes in Saskatchewan, Report #1: A Historical Overview, 1985-2000

"The following resolution was passed at the 1964 SARM convention:

Whereas the aspects of education have broadened in recent years to the point where education alone costs as many or more mills than other local government services combined, and it is no longer reasonably financed by property tax;

Whereas education is the responsibility of the entire population rather than the property holders alone to give the citizens of tomorrow an equal chance for education;

Therefore let it be resolved that the costs of education be borne by society as a whole and that revenue for education be derived from an equitable tax imposed by the Federal and Provincial Governments on the ability to pay principle."

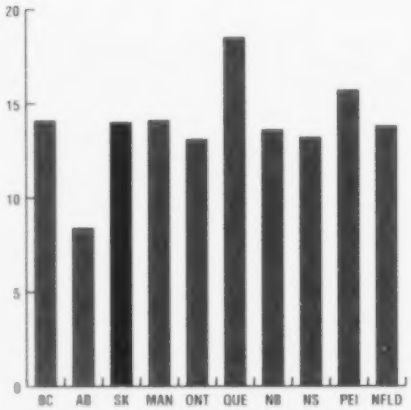
Saskatchewan Association of Rural Municipalities

Although it is difficult to compare property taxes inter-provincially, we examined a number of studies on the level of property tax used in Saskatchewan and other jurisdictions. Our initial research shows that Canada's level of property taxation is high compared to other countries. Within Canada, Saskatchewan is at the higher end of the spectrum.

International tax comparisons performed by the Canadian Tax Journal[1] show how Canada's various tax rates compare to the 30 countries in the Organization of Economic Co-operation and Development (OECD). When looking at property tax as a source of revenue, most OECD countries ranked lower than Canada in 1999. With property tax comprising 3.9% of Gross Domestic Product (GDP), Canada was tied with the United Kingdom for second highest. Luxembourg had property taxes that were only slightly higher at 4.0% of GDP (See Schedule of Tables, Table 1).

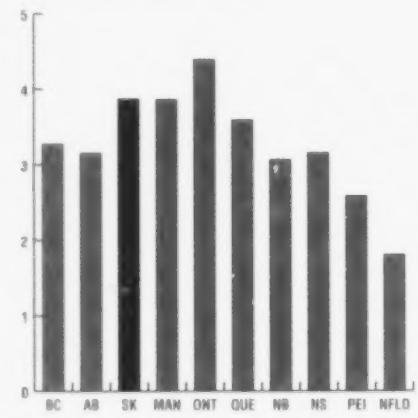
Statistics Canada data shows that Saskatchewan is competitive with most other provinces when it comes to total provincial taxes and fees as a per cent of GDP (See Figure 1). Note that this data includes property taxes that are levied by the provincial governments of B.C., Alberta, Manitoba, Ontario, New Brunswick, and P.E.I.. However, Saskatchewan's competitiveness changes when looking solely at property taxes (See Figure 2). When examining property taxes that are levied by both provincial and local governments, Saskatchewan and Manitoba are tied for second highest behind Ontario with property taxes accounting for 3.9% of GDP.

Figure 1 – Total Provincial Taxes & Fees as a Percentage of 2000 GDP



Data Source: Statistics Canada

Figure 2 – Total Provincial and Local Property Taxes as a Percentage of 2000 GDP



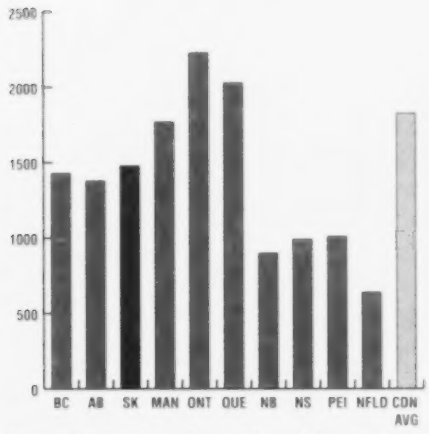
Data Source – Statistics Canada 2000

A study released by Statistics Canada in July 2003[2] examined property taxes paid by home owning families across Canada. This study found that Manitoba, Ontario and Quebec all had higher average property taxes than Saskatchewan (See Figure 3).

[1] Perry, David B. Fiscal Figures: International Tax Comparisons. Canadian Tax Journal. Vol. 50, No. 3, Table 2. (Toronto: Canadian Taxation Foundation, 2002).

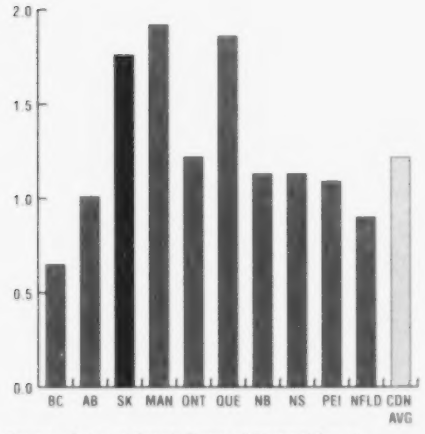
[2] Statistics Canada. Perspectives on Labour and Income. Vol. 4, No. 7. (Ottawa: 2003).

Figure 3 – Average Property Taxes ($)



Source – Statistics Canada Survey of Financial Security – Property Taxes, July 2003

Figure 4 – Effective Property Tax Rates (%)



Source – Statistics Canada Survey of Financial Security – Property Taxes, July 2003

This study also examined effective property tax rates, which is the tax paid on property relative to its value. Once effective property tax rates were calculated, Quebec and Manitoba remained the highest taxed jurisdictions with Saskatchewan close behind. It is interesting that Ontario dropped to the Canadian average and B.C. became the lowest province with an effective property tax rate of 0.65%, even though its average property taxes were fairly close to those in Saskatchewan (See Figure 4). For more information, see the Schedule of Tables, Table 3.

Other sources of data consulted by the Commission are summarized in the Schedule of Tables at the back of this report. They show that:

- On a per capita basis Saskatchewan has higher provincial and local property taxes than most provinces except Ontario and Alberta (See Tables 4 and 5).
- Property taxes (and effective tax rates) in Saskatoon are higher than the Canadian average for most housing types (See Tables 6 and 7).
- Regina and Saskatoon ranked in the middle of the pack (13th and 15th out of 26) with respect to property tax levels in 2002. However, when education taxes were removed, these cities were much more competitive, ranking 7th and 6th lowest respectively (See Tables 8 and 9).

More discussion of the comparability of property taxes on agricultural land relative to other property classes will be dealt with in assertion #5.

Examining the research completed to date, there is evidence that property taxes in this province are high. Almost everyone can cite an example of someone in a different province or community paying less tax than they are. The data, however, can't always capture those discrepancies, as it is based on averages and relies on surveys of sample houses.

"Replacing property tax with a tax that reflects ability to pay may not reduce the overall tax burden, but it will appeal to people's sense of fairness."

Comment from public meeting participant

"Property tax bears no relation to ability to pay. For example – a senior living on a fixed income in the home he or she has owned for many years can face extreme financial hardship when property taxes continue to escalate. The value of the home has undoubtedly risen over the years but the individual's ability to pay taxes has probably declined."

Saskatchewan Real Estate Association

"Rural people believe that their children are entitled to the same level of education as the children living in the large urban centres. We realize that not all the same programs can be delivered in the small centres, but... our children are entitled to receive at least the core subjects."

Brief on behalf of the residents of the Town of Eastend

"The level of benefits an individual receives from education is the same whether that individual owns one quarter of land or 20 quarters of land, or a $10,000 residence or a $100,000 residence, yet those with more land are expected to pay more for education. We do not feel that this is fair."

RM of Golden West

Assertion #2 – "Property taxes are unfair."

Another consistent comment was that property taxes are unfair. People from all walks of life expressed this concern: seniors, farmers, business owners and individual ratepayers. Comments related to the feeling that property taxes are not linked to the ability to pay or the level of service provided.

What have we heard?

Many people expressed the view that property taxes are 'regressive' and not linked to the ability to pay. While individuals may have different interpretations of the term regressive, it is generally described as a tax that decreases when income levels increase. A progressive tax does the opposite; its rate increases with rising incomes. This terminology was used extensively by people referring to the unfairness of property tax. Many thought a more progressive tax that is responsive to different income levels would be more suitable for funding something as important as education.

A brief submitted by the Saskatchewan Association of Rural Municipalities (SARM) stated that the education property tax system was originally designed with the intent that the tax would be based on ability to pay. This organization feels that this is no longer the case.

People also said they didn't see their property taxes related to a specific benefit. Most agreed that education is a public good and must be funded by all; however, a few felt those with children in school should pay more. Others questioned whether property taxes should be increasing as rapidly as they are or whether the burden is distributed equitably among communities and different types of property owners. These thoughts led people to conclude that property tax is not a fair tax.

Farmers and others in rural school divisions often see no link between the property taxes they pay and the benefits they receive. They see their property taxes, the education portion in particular, rising while they witness what they feel are decreased levels of service: school closures, longer bus rides and a smaller range of programs than that offered in urban schools. While some of these phenomena exist in city schools, rural residents are becoming more vocal about how they feel about the real or perceived declining level of service.

Others question whether taxes should be specifically dedicated to education, thereby allowing taxpayers to see the level of service provided for the taxes paid.

What have we found so far?

Property taxes do not appear to be fair. They have none of the elements people typically view as fair from a tax perspective. People feel they are not related to ability to pay and do not necessarily increase in proportion to income.

The literature often describes two different principles for equity. Horizontal equity is the notion that people with the same ability to pay should pay the same amount of tax. Vertical equity occurs when people in different economic circumstances pay different amounts of tax. People feel the system is unfair when they see others in similar situations paying lower amounts of tax. Some also feel that those in different situations or property classes should pay more, but it is difficult to determine how much more is appropriate when the system is not transparent or easy to understand.

Property taxation and the fairness of its application is not a new issue to Saskatchewan or to other jurisdictions. Many studies and reviews have looked into the issue and suggested how the structure could be made more equitable. A Committee on School Finance and School Grants looked at this issue back

in 1933.[6] It concluded that owners of property, especially farm property, were carrying too great a share of the school tax burden. It suggested that "greater emphasis should be placed on an income tax for salaried and professional classes and on a production tax for persons engaged in agriculture."

In the early 1980s, the Local Government Finance Commission studied property tax and other forms of taxation. In its final report the Commission made a number of recommendations to improve the fairness of property taxation in Saskatchewan. It proposed:

- introducing an income-related property tax credit intended to compensate for the insensitivity of the property tax to changes in ability to pay and to compensate for the regressiveness of the property tax for those with low incomes
- changing the assessment function to ensure greater equity in the distribution of the property tax load
- changing the formulas used to distribute provincial funds among local governments to ensure greater equality in local tax rates and level of services

These proposals were not intended to stand on their own, but to form part of a larger package of overall reform to the system that included increasing government transfer payments and grants-in-lieu of taxes, and eliminating certain property tax exemptions. These proposals were designed to address the fairness of property tax, not the overall level of taxes, but it was believed that they would also have the effect of lowering property tax for a number of tax payers.[7]

The Ontario Fair Tax Commission, in its 1993 review of taxation levels in that province concluded that property taxes are not based primarily on the ability-to-pay principle. The Commission went on to recommend that residential property taxes, as a source of core funding for education, be replaced with funds raised from provincial general revenues.[8]

Langlois and Scharf, in their 1991 School Finance and Governance Review found that the fairest way to finance educational services is through a progressive income tax which better reflects ability to pay.[9]

Statistics Canada's 1999 Survey of Financial Security found that effective property tax rates are relatively uniform across the country and across income groups.[10] Homeowners in every income group paid approximately 1.2% of the value of their home in municipal taxes. Despite the great variation in home values and mill rates across communities, property taxes, on average, were proportionate to the value of the property being taxed.

While property taxes may be proportionate to property values, the same Statistics Canada study found that property taxes are not proportionate to family income levels. The study compared the average property taxes paid by a family to the average income taxes paid. On average, Canadian homeowners paid 2.9% of their income in property taxes versus 21.3% of their income in income taxes. However, the ratio between the two types of taxes varied considerably depending on income levels (See Figure 5).

"I have farmed for over 40 years and never have seen taxes go up so much as in the last 2 years. This is totally unfair and we as farmers have no say in the matter. There must be a fairer way to support education."

Edward Ewen, Humboldt

"Had we known how outrageous and unfair the property taxes were we would have looked elsewhere for acreage property – just across the road from us (Blucher) is half as much. I believe the overall high taxes in Saskatoon will deter families from moving here as Saskatoon is rapidly gaining a poor reputation in this regard. We pay double the property tax as friends living on a similar acreage property outside Calgary."

Residents of Corman Park

[6] *Report on the Committee on School Finance and School Grants. (Regina, 1933), quoted in Evelyn Eager. The Rationale of Taxation in Saskatchewan Research Study No. 3. (Saskatchewan: Royal Commission on Taxation, 1965).*

[7] *Local Government Finance Commission. Overview to the Final Report of the Local Government Finance Commission. (Regina, 1986).*

[8] *Ontario. Fair Tax Commission. Fair Taxation in a Changing World: Report of the Ontario Fair Tax Commission. (Toronto: University of Toronto Press, 1993).*

[9] *Langlois, Herve O. and Scharf, Murray P. School Finance and Governance Review: Final Report. (Saskatchewan, 1991).*

[10] *Survey of Financial Security, 1999 as found in Statistics Canada Perspectives on Labour and Income, Property Taxes, Vol. 4, No 7 (July 2003).*

"Taxpayers have become cynical in regard to Government and its spending. They are far more understanding of truly dedicated taxes... I would also strongly suggest that the inability of taxpayers to connect what they pay to what they get is, at least, an equal source of that feeling (of being overtaxed). I offer the example of the gasoline tax... consider the difference that might exist if (it) became a dedicated Infrastructure Tax devoted, in its entirety, to roadways, bridges, streets, traffic control... Government would find significant changes in the attitude of Saskatchewan ratepayers, who could much more clearly connect the taxes they pay to the benefits they receive."

G.A. Whitter, Saskatoon

Figure 5 – Property Taxes Related to Income

	% of Income to Property Tax	% of Income to Income Tax
All Families	2.9	21.3
Homeowner earning $20K	10.0	4.0
Homeowner earning $100K	1.8	28.6
Low-income (non-elderly)	10.8	5.8
Low-income (elderly)	11.7	3.4

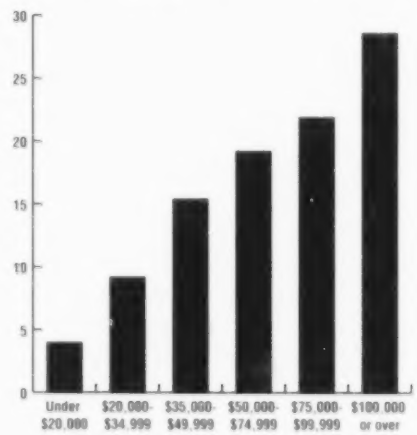
Source: Statistics Canada Survey of Financial Security: Property Taxes, July 2003

This study demonstrates the unfairness of property taxes for lower income earners. Income taxes increase as income grows. They also provide personal deductions that give some tax relief to those at lower income levels (See Figure 6).

Property taxes, on the other hand, are not related to income, but are assessed at a flat rate on property value. Therefore, those in low-income groups pay a larger portion of their income toward property taxes (See Figure 7). Similarly, income typically declines after the major income earner retires yet the value of the home could continue to increase. Consequently, elderly homeowners with incomes below the low-income cutoff level pay large percentages of their income on property tax.

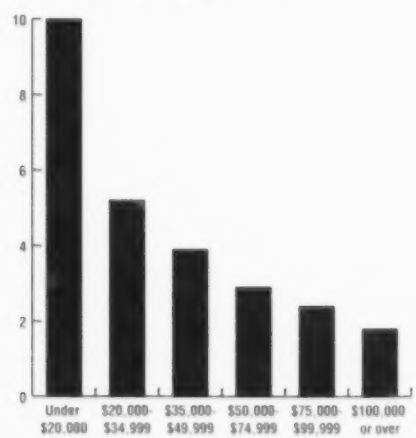
Given that every comment received and every piece of literature reviewed to date suggests that property taxes are unfair, it's difficult for the Commission to come to any other conclusion at this point. Clearly, property taxes are not sensitive to income and are not always linked to benefits received. People hear of others in similar situations paying less and that coupled with the numerous inequities throughout the system (to be dealt with later in this report) leads people to conclude that this tax is unfair. And because it is unfair, people are concerned about our heavy reliance on property tax to fund education.

Figure 6 – Income Tax as Percentage of Pre-tax Income



Source – Statistics Canada Survey of Financial Security – Property Taxes, July 2003

Figure 7 – Property Tax as Percentage of Pre-tax Income



Source – Statistics Canada Survey of Financial Security – Property Taxes, July 2003

Assertion #3 – "The province should contribute more to the cost of education."

On average the province currently contributes about 40% of the operating costs of education. Almost everyone agreed that this provincial share is too low, but there was no agreement around the "right" amount.

What have we heard?

The public meetings and written submissions were virtually unanimous that the provincial share of education costs is too low and must be increased. Some folks felt that the province should finance 100% of the cost; others felt that the provincial share should be at least 50%. Many individuals thought that a reversal: 60% provincial and 40% local, would be the right balance. Many individuals indicated that the majority of education funding must come from a revenue source tied to ability to pay.

We asked groups "What do you think the balance should be between provincial and school board funding for K-12 education?" These were some of the comments:

"80% by provincial with working toward 100% in the future

10% School Board contribution

60% Province, 40% Provincial Property Tax

The national average at minimum

Minimum 50/50 province wide

100% provincial funding

Would like to see province 60% local 40%. Even 50/50 is better than what we have.

The province should fund 60% for all school divisions in the province.

The province should be funding 75% of the cost of education and the local property tax 25%."

What have we found so far?

As early as the Report of the Royal Commission on Taxation,[11] elementary and secondary education was viewed as providing benefits far beyond those to individuals or local communities. Public goods attributed to education include social security and cohesion, better personal and family health, stronger contribution to the tax base, and facilitation of a functioning democracy among many others. This forms the basis for the argument that broad provincial revenues, rather than the local tax base should be the primary source of funding for education programs and services.

In the United States, there is great variation among states in financing K-12 education. For example, the District of Columbia finances about 85% from local sources. Hawaii, on the other hand, finances only 1.7% in this way.[12]

"If there is any form of tax relief that the Province could deliver to help small business create more jobs in Saskatchewan, it is the removal of the education component off the local property tax. Other groups... have supported the provincial share of funding of education returning to its traditional level of funding of 60 per cent. CFIB strongly supports 60 per cent of provincial funding as a first step forward toward complete removal of school funding from the property tax base."

Canadian Federation of Independent Business

[11] Royal Commission on Taxation. Report of the Royal Commission on Taxation. (Regina, 1965)

[12] See table 13 in the schedule of tables for further information.

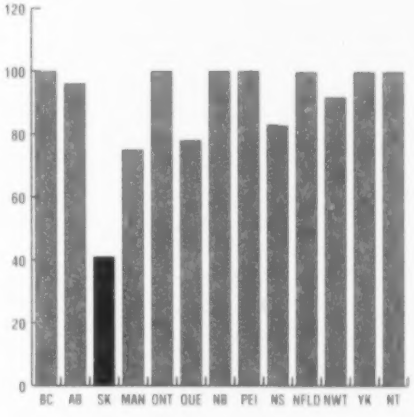
"The imbalance in provincial vs. local funding of school costs notwithstanding, SUMA members have become wary of proposals intended to simply increase provincial school grants. SUMA was last party to such a proposal in 2001, along with SARM and SSTA but the increase in Provincial funding that year was still exceeded by an overall increase in total school tax levies, resulting in more rather than less pressure on the local property tax base as a whole."

Saskatchewan Urban Municipality Association

There has been a trend across Canada over the last ten or so years to centralize funding of K-12 education. Most provinces contribute the majority of funding for public education through a combination of provincial property tax and general revenue contributions. The provincial government in eight provinces and territories contributes 100% of the funding, but in three of those eight provinces, some of that revenue comes from a provincial property tax.[13]

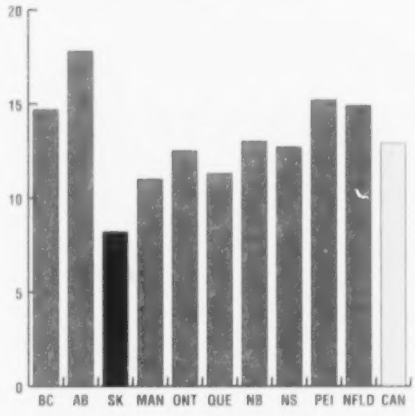
Saskatchewan contributes about 41%, all through the general revenue fund.[14] School divisions raise approximately 59% of financing for education through the property tax base and other school division revenues.

Figure 8 – Percentage of Total Provincial Funding for K-12 Education Cost – 2001



Data source: Saskatchewan Learning

Figure 9 – Elementary & Secondary Education – Percentage of Total Provincial Expenditures – 2003



Data Source: Statistics Canada

Based on 2003 Statistics Canada data, the province of Saskatchewan targets a lower percentage (8.2%) of its provincial expenditures to elementary and secondary education than any other province. This is due to the high reliance on local property tax raised by school boards in this province.

We looked at combined 2003 provincial and local government costs for education[15] per capita and as a percentage of gross domestic product (GDP). In terms of total expenditures, Saskatchewan is about the middle of the range, both in expenditures per capita and as a percentage of GDP. Both indicators show that Saskatchewan overall spends more than the Canadian average (See Figures 10 & 11).

[13] *See table 14 in the schedule of tables for detail on share from property tax: both local and provincial.*

[14] *The 2003-04 provincial budget GRF revenue consists of 55% from taxes (corporate, personal, sales, fuel, etc.), 13% from non-renewable resources, 10% from crown entities, 5% from other revenue and 17% from the federal government.*

[15] *Statistics Canada, Financial Management System, CANSIM, Saskatchewan Bureau of Statistics, Online publication.*

Figure 10 – 2003 Provincial and Local Government Expenditures on Primary and Secondary Education Per Capita

ALTA	1,288
MAN	1,231
PEI	1,222
NFLD	1,217
SASK	1,191
ONT	1,170
CANADA	1,141
BC	1,084
QUE	1,037
NS	1,011
NB	1,010

Figure 11 – 2003 Provincial and Local Government Expenditures on Primary and Secondary Education as a Percentage of 2002 GDP

PEI	4.5%
NFLD	4.0%
MAN	3.9%
NB	3.7%
NS	3.6%
SASK	3.5%
BC	3.3%
QUE	3.2%
CANADA	3.1%
ONT	3.0%
ALTA	2.7%

Data Source: Statistics Canada and Saskatchewan Bureau of Statistics

Figure 12 – 2003 Provincial Government Expenditures on Primary and Secondary Education Per Capita

NFLD	1,240
ALTA	1,219
PEI	1,165
BC	1,077
NB	1,012
QUE	920
CANADA	904
NS	868
MAN	839
ONT	745
SASK	587

Figure 13 – 2003 Provincial Government Expenditures on Primary and Secondary Education as Percentage of 2002 GDP

PEI	4.3%
NFLD	4.1%
NB	3.7%
BC	3.3%
NS	3.1%
QUE	2.8%
MAN	2.6%
ALTA	2.5%
CANADA	2.5%
ONT	1.9%
SASK	1.7%

Data Source: Statistics Canada and Saskatchewan Bureau of Statistics

When you remove local expenditures from the equation, the story is different. In this light, Saskatchewan has the lowest provincial contribution to education per capita and as a percentage of GDP.

So what is the advantage of a higher provincial share? It does not necessarily mean lower property taxes because we know other provinces have implemented provincial property taxes to fund education. We could do so in Saskatchewan and still have the same level of property tax financing education. We won't repeat the discussion on fairness here, but will outline what we know so far about the implications of changes in provincial funding share.

In the summary of their discussion on provincial funding, Kitchen and Auld[16] confirm that since elementary and secondary education results in benefits for the broad social good and because provincial governments set uniform standards of education that must be delivered on a province-wide basis, provincial funding must play a significant role if the service is to be provided efficiently.

The 1993 report from the Ontario Fair Tax Commission[17] recommended full provincial funding of education, partly because of what they believed were inequities for students and taxpayers[18]. They recognized, however, that a central funding model may not be as responsive to local educational requirements as the local school board. Thus, there was a need for some level of local discretionary spending. The authors of the report recommended this could be a levy by the school board, on residential property only, of about 10% of the total amount of provincial funding provided to the school board.

Some authors[19] argue that a high state or provincial share won't necessarily produce more equity. They cite jurisdictions with high state shares that continued to have large inequities between districts. They recommend the senior government decide what degree of equity they want for students and ratepayers and then determine the financing arrangement to achieve it.

We would find it difficult to argue that the province contributes enough to K-12 education financing. Saskatchewan does contribute less than any province in Canada and people have told us that the province should contribute more. The literature, so far, makes a compelling argument for broader tax base support for education from both a social benefit and equity perspective.

[16] *Kitchen, Harry and Auld, Douglas. Financing Education and Training in Canada. Canadian Tax Paper No. 99, Chapter 3. (Canadian Tax Foundation, 1995).*

[17] *Fair Tax Commission. Fair Taxation in a Changing World: Report of the Ontario Fair Tax Commission (Toronto: University of Toronto Press, 1993).*

[18] *Ibid. p. 86. The Fair Tax Commission's definition of basic fairness for taxpayers was "... this means fairness for taxpayers whose burden should be more closely related to the ability to pay." And for students "... it means fairness for all students whose learning should not be compromised by accidents of geography, socio-economic status, or ethnocultural origin."*

[19] *Odden, Allen and Clune, William H. School Finance Systems: Aging Structures in Need of Renovation. Education Evaluation and Policy Analysis Vol 20, No. 3. (Fall 1998).*

Assertion #4 – "The education financing system creates inequities among school divisions."

The cost of K-12 education is currently shared between the province and local school divisions. The provincial share is distributed based on each school board's ability to pay, measured by assessment per student. Some boards have very high assessments per student and some have very low assessments per student. Some school boards spend much more per student than others. Some school boards have much higher mill rates than others. There are currently 18 school boards that receive no provincial funding. These are factors that contribute to the general feeling that the current system is causing inequities among school boards.

What have we heard?

The importance of equal education opportunities for all students, no matter where they live, was stated at every public meeting and mentioned in most briefs submitted to the Commission. This principle, combined with the idea of education as a broad social good were cited as evidence that the province must contribute a higher proportion of funding for education.

We heard that it is not equitable for ratepayers of one school division to pay extraordinarily high property tax relative to their neighbours because of a large population of high risk children, higher transportation costs or other demographic or socio-economic factors. We also heard the unevenness in tax rates due to the relative size of a school division's property tax base is inequitable.

What have we found so far?

Equity can be defined a number of ways. It can mean "dealing fairly and equally with all concerned"[20] or being "fair and reasonable; treating everyone in the same way". A more comprehensive view is expressed in terms of equity of circumstance or opportunity. In his report[21] to the Agricultural Producers Association of Saskatchewan, Dr. Gerry Paquette referred to Aristotle's definition of two basic dimensions to equity or fairness: treating equals equally on one hand and treating unequals unequally on the other. These dimensions are not as contradictory as they may first appear.

Students should have access to the same quality of education regardless of the socio-economic status of their family or community, and without regard to their race, health status, ethnicity, learning style or other characteristics. If high risk students come to school and are treated the same, they may not achieve results comparable to those of other students. Those students may need supportive and specialized programming to achieve the same standard of educational performance. Treating all students the same will not achieve equity.

Saskatchewan information on education process variables and key student achievement measures is available on a provincial basis[22] and provides useful context. This information is not available for all individual school divisions, so we have limited ability to put "science" around the question of equity for all students in Saskatchewan.

The literature generally agrees that the theory for measuring student equity should look at:

1. horizontal equity (treating equals equally)
2. vertical equity (treating unequals unequally)
3. fiscal neutrality (resources available for educating students shouldn't vary with the amount of money each school division can raise)

"The Board believes that no child should receive a sub-standard education because of their place of residence or from a system that redistributes funds available to provide educational services."

Board of Education
Saskatoon Catholic Schools

[20] *Merriam-Webster's Online Dictionary, 10th ed. (Merriam-Webster, Incorporated, 2003).*

[21] *Paquette J. E. Interdivisional Fiscal Equity in Saskatchewan 1985 – 2000: An Analysis of Spending Equity and Wealth Neutrality. Prepared for the Agricultural Producers Association of Saskatchewan. (Regina, 2003).*

[22] *For system context, process and outcome indicators, please see Saskatchewan Education Indicators, Kindergarten to Grade 12, 2002. Saskatchewan Learning. (Regina, 2003).*

There are limits to the information and to the some of the methods we can use to determine equity for students, but we have been able to look at a few things so far.

Paquette [23] analyzed school division data for 1985 to 2000 looking primarily at spending and assessment per student. While there were data limitations, he concluded that overall spending differences were quite high across all Saskatchewan school divisions taken together. There are more differences in spending per student among non-rural school divisions than among rural school divisions, especially when transportation and tuition expenditures are excluded. Rural school divisions tended to spend more per student than non-rural school divisions, mainly as a result of transportation and tuition expenditures.

In the context of the relationship of spending per student and assessment per student, it seems, for the province overall, that assessment per student has a slightly negative correlation to per student spending. In other words, spending per student slightly decreases as assessment per student goes up.

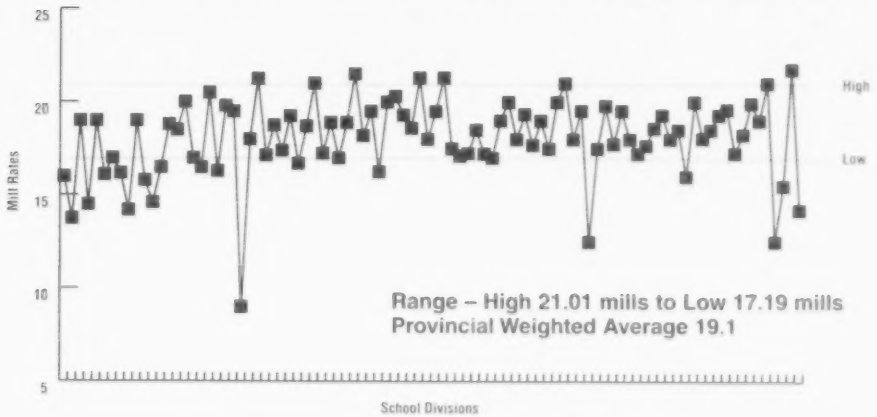
When Paquette compared rural and non-rural school divisions, a different pattern is evident. Rural school divisions tend to spend more per student as assessment per student increases. Non-rural school divisions tend to spend less as assessment per student increases.

In evaluating equity for ratepayers we have, so far, looked primarily at mill rate differences among school boards.

In Saskatchewan, mill rate is used to express the property tax rate. It means the rate applied to each $1,000 of assessed value.

If equity for ratepayers means that the rate of tax should not vary substantially from school division to school division, we can look at variation among these mill rates. Our analysis showed consistent differences of greater than 10% among school divisions each year from 1997 to 2003. The following graph plots the 2003 mill rates with a band showing the range in which most of the mill rates should fall so that the difference may be considered equitable. For 2003, almost 34% of school divisions had mill rates outside this range.

Figure 14 – Equitable Range for 2003 Mill Rates – Deviation of + or - 10% from Provincial Weighted Average of 19.1 Mills



Data source: Saskatchewan Learning-Unpublished 2003 School Division Mill Rates.

[23] *Paquette J. E. Interdivisional Fiscal Equity in Saskatchewan 1985 – 2000: An Analysis of Spending Equity and Wealth Neutrality (Prepared for the Agricultural Producers Association of Saskatchewan. (Regina, 2003)*

We also heard concern about the difference in taxes paid in different school divisions. People viewed this as unfair. To illustrate this point, we've shown the difference in property tax payable on the same taxable assessment at the highest mill rate and the lowest mill rate for 2003. Although the tax base for each school division is similar, the ratepayer at the higher mill rate paid more than double the property taxes of the ratepayer in the lowest mill rate school division. The ratepayer in the highest mill rate school division is paying about 25% more in taxes than the provincial average for the same tax base.

Figure 15 – Comparison of Highest & Lowest Mill Rates in Saskatchewan

	2003 Mill Rate [1]	Taxable Assessment	Property Taxes Payable
Highest Mill Rate	23.8	$250,000	$5,950
Lowest Mill Rate	9.0	$250,000	$2,250
Provincial Weighted Average Mill Rate	19.1	$250,000	$4,775
Difference in Taxes Due – High to Low			**$3,700**

Data source: Saskatchewan Learning

We also heard that the zero grant board phenomena demonstrates that there are inequities in the system.

Under the provincial operating grant formula, these boards are able to generate more revenue at the equalization rate[1] than they require for the amount of expenditures recognized by the grant formula. Even though these boards generate more than they need under the grant, the province has decided not to recover these excess revenues. For 2003, the province expects this excess to be about $18.5 million[2]. If the operating grant is to truly equalize all revenue available for K-12 education in the province, then this excess revenue should be distributed as well.

Zero grant boards also demonstrate inequity in the system when we look at actual average mill rates charged by school boards. The weighted average mill rate for zero grant boards was 1.5 mills or nearly 8% lower than the weighted average mill rate for all school boards in the province.[3]

Inequity for ratepayers does seem to exist. The difference in mill rates is significant. There are 18 school boards who do not receive a provincial grant, but they still have a weighted average mill rate less than the provincial average. People told us it is unfair that some pay more in school property taxes on the same value of property just because of where they live.

"(By) continuing to load up on profit-insensitive property taxes, businesses become less and less able to ride out economic swings... less able to create local jobs or invest in a new plant and equipment because it exposes them to even more taxation. It puts firms in high-tax jurisdictions at a substantial competitive disadvantage. Although protecting residents from the full cost of providing government services makes them better off in the short run, undermining the ability of the business community to produce local jobs does far more long-term damage. The situation reaches the point where it becomes worthwhile for firms to move to lower cost jurisdictions."

Canadian Federation of Independent Business, 1995

[1] *The equalization rate is a standard rate applied to the assessment of all school divisions for provincial grant calculation purposes.*
[2] *Saskatchewan Learning 2003*
[3] *Saskatchewan Learning - Unpublished 2003 School Division Mill Rates*

"I'm sure that cottage owners pay a higher percentage of their tax bill in school taxes than any other group in the province... cottage owners, as seasonal residents, do not use the services of the school division that collects their tax dollars, and are not allowed to vote or run for office... I am certainly willing to pay my fair share of taxes and to assist rural school divisions meet their financial commitments. However I feel that all Saskatchewan residents should equally contribute to the education system. Why should I be penalized because I choose to spend my vacation dollars in rural Saskatchewan?"

Harley Toupin, Regina

Assertion #5 – "The property tax and assessment systems are not working."

The two main concerns that we heard here are:

1. The property tax itself contributes to inequity among property classes.
2. The current system of property assessment is not working.

We thought it was important to provide some discussion on assessment because of the number of times it came up in public meetings and written submissions.

What have we heard?

The Commission heard that the property tax system is not working. This is based in part on feelings that the burden among different classes of property – residential, seasonal, commercial and agricultural – is unequal.

Cottage owners expressed several concerns with property taxation on resort properties. While permanent residents may not like the level of taxation, seasonal residents are doubly concerned. They pay taxes on two properties, but can't send their children to school, vote for their representatives, or act as trustees in the school division where they own a cottage.

Cottage owners are also concerned about the unequal treatment of those leasing properties in federal and provincial parks, which are not subject to property tax. They also expressed concerns with the percentage of value applied to seasonal properties. They feel that 70% of value is too high for this property and believe it should be set at 55%, the rate applied to arable land.

The commercial sector is also concerned about property taxes and the impact they are having on business. The Canadian Federation of Independent Business shared a 1995 research paper that analyzed property tax systems across Canada from the perspective of the business sector. CFIB conducted a survey of its members on property tax issues. This survey presented inequities on a number of levels:

1. Business taxation far exceeds residential taxation in every province.
2. Variations in tax loads among businesses are huge – even among similar types of firms in the same municipalities.
3. Small businesses are more exposed to property taxes and problems in the system than large firms.[27]

Those in rural areas were also vocal about the inequities in the system. Many expressed the view that property tax is regressive and pointed out that owning property is not necessarily a measure of wealth or ability to pay. We heard often from individuals, RM councils and school boards that rural taxpayers contribute more than their fair share to the cost of education.

According to the Agricultural Producers Association of Saskatchewan Inc. (APAS), agriculture contributes 8.7% of Saskatchewan's gross domestic product yet pays 25% of education taxes. This organization questions why real estate and property carry such a large responsibility for funding education costs.

[27] Mallett, Ted and Botting Dale. *Silent Killer: The Impact of Local Property Taxation on Saskatchewan's Small and Medium-sized Businesses.* Canadian Federation of Independent Business Research. (Saskatchewan: Canadian Federation of Independent Business, 1995).

Farmers and agricultural groups point out that those with significant land holdings, such as farmers and ranchers, are often the least able to pay. The brief submitted by APAS noted that with farms increasing in size, margins are becoming tighter. Rising property taxes are contributing to the increased cost of production, which farmers can't pass on to their customers, who often live in other countries.

Farm incomes have declined as the agricultural sector has been hit hard by international subsidy wars, volatile commodity prices, consecutive droughts, insects, and more recently, the mad-cow crisis. While rural residents are concerned about the effect that property taxation has on their pocket books, the impact of these trends extends beyond the producer. Businesses that provide direct support and services to farmers and the many businesses that rely on solid agricultural incomes to thrive, also feel the effects of increased property taxes.

Concerns with the current property assessment system came up over and over. These concerns included:

- the imprecision of the assessment method
- significant instability in local revenue due to the time frame between assessments
- changes in the way property is assessed, and the resulting assessment appeals

"In 1965 the results of that study were published, titled – Report of the Royal Commission on taxation. They referred to this question by saying –'Even if property evaluation could be determined with complete scientific precision, it would not measure what is of basic interest in tax matters – ability to pay.' The Royal Commission went on to say: 'The basic weakness of the existing property tax system lies in its implicit assumption that real property holdings are in fact a full reflection of wealth, of available means, of ability to pay. This is the critical assumption and we find it unwarranted and unacceptable.'... It is very clear from these conclusions that the use of assessed property value in our provincial foundation grant needs to be reviewed."

Town of Kindersley

What have we found so far?

Before we start discussing the specific issues around the property tax and assessment system, we want to highlight some of the features of the current system in Saskatchewan.

Saskatchewan's property taxation system has three major participants – the Saskatchewan Assessment Management Agency (SAMA), the provincial government, and local governments (municipalities and school divisions) – each with specific roles and responsibilities.

"While Saskatchewan farmers are prepared to contribute their fair share toward financing education costs, the present cost and the speed of growth in the cost of education, combined with the dramatic shift in taxation to rural property has agricultural producers contributing to education costs far in excess of what could be considered fair. The growing tax load on agriculture for education is not sustainable."

Agricultural Producers Association of Saskatchewan

"Property assessment is not a measure of wealth nor of ability to pay. Businesses or farms with identical assessments can have net worths ranging from zero to millions of dollars and widely varying cash flows. Attempts to tinker with assessment or taxation levels will not make property taxation responsive to differing abilities to pay. The problem can be lessened by reducing the reliance on property tax as a source of education funding."

Moose Jaw School Division Board of Education

"Currently, farm ratepayers pay no taxes on their residence as long as they maintain an agricultural operation in a municipality. All taxes that they pay both to the Municipality and to the School Division are 100% deductible from their income (and income tax). To equate the amount of dollars spent by rural vs. urban residents is somewhat less than totally forthright when you consider that the urban cost is paid with after tax dollars and the rural cost is paid with tax deducted dollars. A fairer way of achieving some sense of balance would be for farmers to pay on their residence, without the benefit of the tax deduction and continue the tax class for their farm land."

Dale Shauf

SAMA

SAMA is an independent agency established by legislation that sets out the rules and principles used in determining property assessment values. These rules and principles are set out in an assessment manual approved by SAMA's board of directors. Board members represent municipalities, the Professional Assessors' Association, school divisions and a minority of provincial appointees.

SAMA also carries out assessment valuations for municipalities, except for the larger cities and some other municipalities that have opted to conduct their own valuations. SAMA and these other assessing authorities calculate fair value assessments, which are the starting point for determining property taxes.

Property values used in determining municipal and school division property taxes are updated every four years to help make sure they are fair and current. For a long time in Saskatchewan there were no re-evaluations. Properties were valued based on a 1965 assessment manual. In 1997, property values were updated by 29 years to reflect property values as of June 1994. The reason for the difference of three years is the time required by assessors to gather and analyze relevant sales and replacement cost data.

The latest re-evaluation was implemented in 2001, reflecting property values as of June 1998. With each re-evaluation, property values vary since local market conditions will change between the time periods.

The province

The purpose of provincial property tax policy is to oversee the overall fairness and equity of the system and make sure that individual policies, like exemption and percentage of value, serve the provincial social and economic objectives.

The province authorizes municipalities to use a variety of tax tools at their discretion to cushion tax shifts and set local property tax policy. These tools include local mill rate factors, base tax, minimum tax, tax/assessment phase-in and property tax exemptions. This authority recognizes the autonomy of local governments to set property tax policy and balance this autonomy to make sure that these policies don't unduly impact other local governments or compromise local tax equity.

The province also determines the broad-based property classes (e.g., residential, agricultural, commercial and industrial) and the percentages of value to apply to those property classes. The percentages of value are applied to fair value assessments, resulting in the taxable assessments for each property class. A lower percentage of value means a lower taxable assessment. The result is lower property taxes, subject to local decisions on applying tax tools.

Local governments

Municipal governments, school boards and, in some cases, library boards are the final participants in the property tax system. They use the fair value assessments provided by SAMA, combined with the property classes and percentages of value set by the province, to establish mill rates based on their budget needs and calculate the tax owing by each property owner.

As previously mentioned, the province established a package of tax tools to help municipalities cushion tax shifts and set local property tax policy. Municipalities have the option of applying these tax tools to address local circumstances and make decisions to shift the impact of reassessment among and within property classes (agricultural, residential, seasonal residential, and commercial/industrial). Cities also have the authority to set property subclasses within these classes. These current percentages of value are summarized in Figure 16.

Figure 16 – Current Percentages of Value

Provincial Property Tax Classes	Percentage of Value
Non arable (range) land	50%
Other agricultural land and improvements	55%
Residential land and improvements	70%
Commercial/industrial land and improvements	100%
Other industrial land and improvements (elevator, pipeline, railway)	75%

If the education property tax burden is distributed as intended by the provincial percentages of value, then the taxable assessment in each class should be consistent with the percentage each class represents in tax levy. This was not the case in 1997 or 2001.

Figure 17 – 1997 Distribution[1]

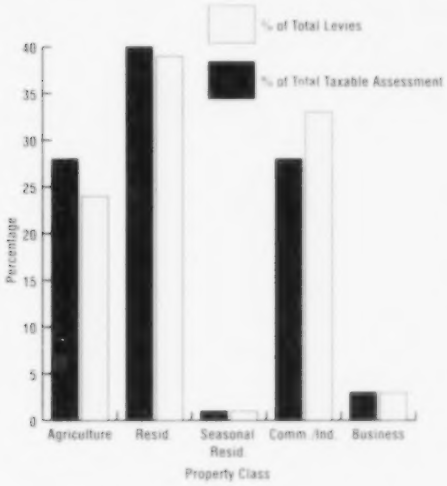
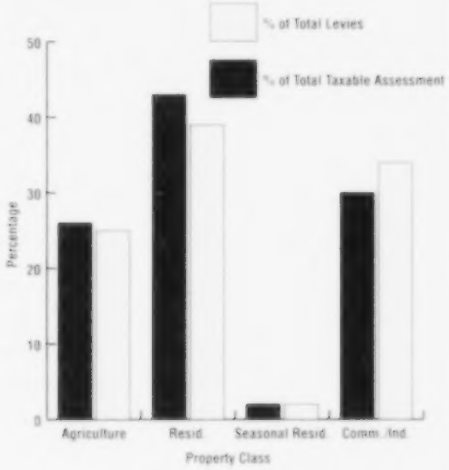


Figure 18 – 2001 Distribution[2]



Figures 17 and 18 show that agricultural and residential properties pay proportionately less in total levies relative to their taxable assessment while commercial properties pay more. The levies for seasonal residential properties were proportionately equal to their taxable assessment in both years. The gap decreased for agriculture and commercial properties over this time and increased for residential properties.

From a previous section, we know that Saskatchewan's overall property taxes are on the high end compared to other provinces. We don't yet have a lot of information for all property classes in other provinces, but we have analyzed some information for agricultural land. Figure 19 provides a summary. The complete data can be found in the Schedule of Tables at the back of the report.

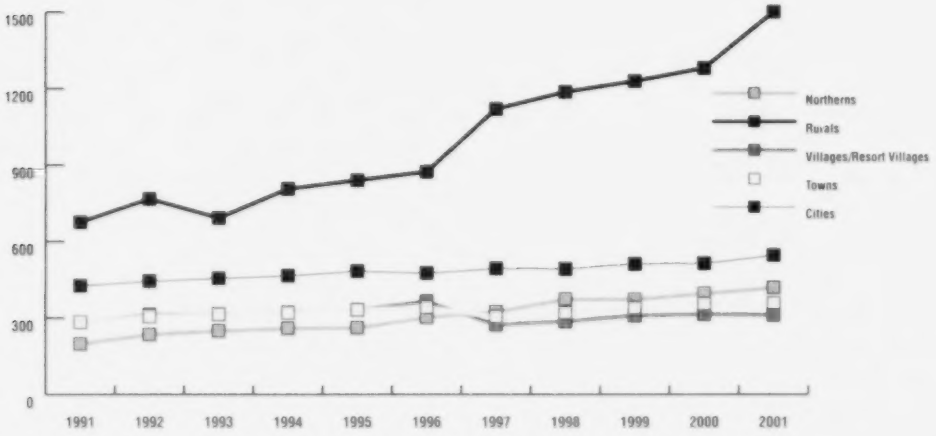
[1] *Data Source: 1997 School Mill Rate Survey, Government Relation and Aboriginal Affairs*
[2] *Data Source: 2001 School Mill Rate Survey, Government Relation and Aboriginal Affairs*

Figure 19 – Property taxes on agricultural property

	Saskatchewan	Alberta	Manitoba	Canadian Average	Reference Table
Property Tax/Acre	$3.06	$2.06	$3.18	$3.54	10
Property Tax as a % of Gross Expenses 2001	3.6%	1.7%	2.2%	1.8%	11
Effective Tax Rate (adjusted) 1997	.68%	.28%	.65%	N/A	12

We then looked within Saskatchewan at school tax levies per capita by municipality type. On a per capita basis, school property taxes have increased more rapidly in rural areas than in other areas of the province.

Figure 20 – Historical Gross School Tax Levies Per Capita ($)



Source: Government Relations and Aboriginal Affairs 2002

We heard at virtually every meeting that assessment was a major concern. We heard that the 1997 and 2001 reassessments had a significant impact on rural Saskatchewan. The general feeling in rural areas is that the move to market value assessment shifted the tax burden away from the business community and onto the agricultural and residential classes of property. While the assessed value of farmland has risen – along with the accompanying property taxes – weak commodity prices, high input costs and unfavourable weather conditions have contributed to a decline in ability to generate revenue from that same land.

Paquette's study for APAS concluded that assessed property value for all types of municipalities increased by 368% from 1985 to 2000. Virtually all of this growth was a result of the shift to market-value assessment in 1997. The largest increase was 493% in rural municipalities, with the next largest increase in northern municipalities at 352%. Cities also experienced an increase of over 300%.

Figure 21 – Changes in Taxable Assessment ($ millions)

Property Class	1997*	2000	% Change In Txble Assess 97-00	2001*	% Change In Txble Assess 00-01
Agricultural	8,826	8,794	-0.4%	9,244	5.1%
Residential [1]	12,725	13,455	5.7%	15,362	14.2%
Seasonal Residential	420	436	3.8%	538	23.4%
Commercial/Industrial [2]	9,500	9,457	-0.5%	10,873	15.0%
TOTAL	31,471	32,142	2.1%	36,017	12.1%

Data Source: Government Relations and Aboriginal Affairs School Mill Rate Survey Results 1997 to 2001
* *Reassessment Years*
[1] *Includes Residential Condo and Multi-Unit Residential*
[2] *Includes Business Tax*

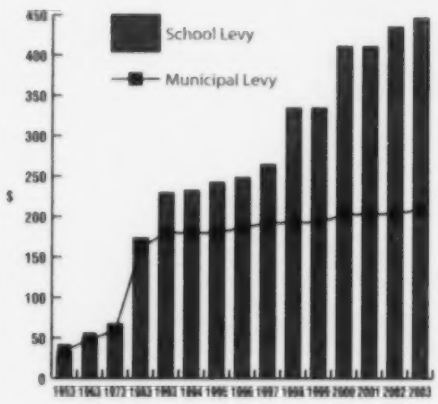
Figure 21 outlines the changes in taxable assessment for education from 1997 to 2001. The change in the reassessment year (2001) is large relative to the non-reassessment years, and quite uneven among property classes. The change from 1997 to 2001 is less pronounced than the change from 1985 to 2000. This is because the most significant change occurred between 1996 and 1997, and this is not part of Figure 21.

For the next reassessment in 2005, SAMA will return to a productivity-based model for agricultural property. We understand this change will not reduce overall provincial assessment on agricultural land, but will shift the assessment among agricultural properties in different regions of the province. The productivity model bases agricultural land valuations on the characteristics of the soil and its ability to produce crops. This model is less reliant on land sales. It is also less influenced by local market conditions such as proximity to oil and gas activity or cities, which tend to inflate market prices.

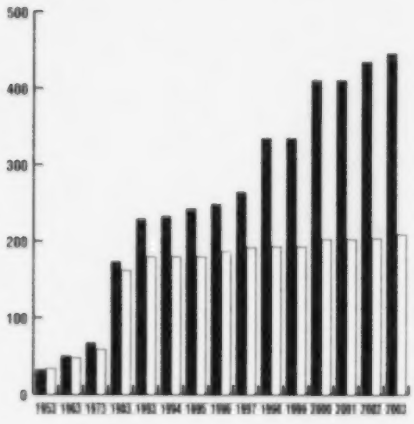
We know that two levels of government and an independent agency, all with different roles, are involved in setting and implementing property tax and assessment policy. We know that neither system is easy to understand. The intent of reassessment is precisely to adjust property values. However, such large and uneven increases only perpetuate feelings of inequity of tax burden and call into question the credibility of the assessment system.

Lost River: A history of education taxes in one rural municipality

Education Tax History



Historical Per Quarter Chart



The following is an excerpt from a brief presented by the Rural Municipality of Lost River. It tells the common story of an RM struggling with increasing school property taxes and shifting demographics over the last 20 years.

"Below you will find a chart, which clearly shows how the school taxes in comparison to municipal taxes have changed since 1953. To understand the concerns, it becomes very apparent in the major shift which occurred between 1983 and 1993, then from 1993 to 2003, the years have been broken out individually to clarify why this issue has become a very great concern to the rural families living in Saskatchewan.

Based on quarter sections, this data becomes much more dramatic. The R.M. of Lost River is primarily an agricultural municipality, 98% of our taxes are agricultural, based on this fact we have 864 quarter sections in our municipality. Using the above taxes divided by 864, you have a picture of the individual impacts on our community.

If you take historical information regarding population versus school taxes, the disparity of this becomes even more apparent. A mere 22 years shows a world of difference.

	Population	School Taxes	Per Capita
1981	463	$117,047.00	$255.80
2003	227	$384,829.00	$1,695.28

Between 1981 and 2003, we lost half of our population, at the same time our school taxes doubled. We are not blaming this entirely on education taxes, but the reality is, the costs for educating our children have risen so much, that we have become devastated. The commission must realize that if this has happened in our municipality, such a small one, the ramifications across Saskatchewan emphasize the problem, and expand it.

These are some of the major reasons that rural ratepayers, farmers, and Councils have been so upset about this situation for so long. The reasons so many municipalities had ratepayers so upset that they demanded public meetings to protest the high school property taxes many of us recall in 2000, the year of the tax revolt meetings throughout Saskatchewan. The dramatic shifts that have occurred are well beyond the ability of the rural economy to sustain these amounts. When you factor in considerations such as low grain revenues, and increases in all other farm input costs, not even considering the normal farming problems like drought and grasshoppers, this school property tax burden is unreasonable and unrealistic."

Assertion #6 – "School board autonomy is an important issue."

We have heard school board autonomy defined primarily as a board's ability to raise its own revenue. But how much do they need to maintain meaningful autonomy?

What have we heard?

Many people stressed the importance of maintaining some local autonomy to provide flexibility and make sure local priorities are met. Autonomy is generally defined as a school divisions' ability to levy tax.

> *"I recognize that most taxpayers feel that local control of education spending is almost non-existent. However, if school authorities received all funding from senior governments, local control would be removed. 'He who pays the piper, calls the tune.' Boards of trustees still do some soul searching and closely scrutinize expenditures before placing their mill rate requisitions with the municipalities."*
>
> **Fred J. Sutter, Saskatoon**

School boards are responsible for controlling education expenditures. We also heard that if the province increases its share of the cost of education, it must ensure there is a reduction in funds from local taxes. Increased accountability should be expected from both school boards and the province.

What have we found so far?

Section 93 of the *Constitution Act, 1867* charges provincial governments with the responsibility for all aspects of education in the province[30].

In Saskatchewan, *The Education Act, 1995* provides the framework for carrying out this responsibility. In general, the government and the Minister of Learning are responsible for areas that are provincial matters and/or require common standards or practices. Curriculum, building standards, teacher certification, grant distribution, and regulation of independent schools and home-based education are examples. School boards are responsible for delivery of education programs in their own school division. Examples are attendance areas for schools, student transportation, hiring of teachers and other staff, determining what schools to operate and setting a mill rate that will raise sufficient taxes to pay for the local share of costs in their division.

There are benefits to funding education locally. It allows local autonomy and accountability. It respects a community's ability to determine the level and type of education programs delivered locally. The community and the ratepayers hold the school division accountable for decisions about things like school closures. Some would argue that since the local community is the next most critical unit in society outside the family, education needs to remain at that level.[31]

Provincial governments recognize that local governance of education has prevented local problems, such as school closures, bussing routes, staffing and student discipline from becoming issues for the province to manage. Local governance also provides an opportunity for solutions to mirror the needs and interests of the local community – something that is hard to achieve with a centralized governance model.

Langlois and Scharf[32] described how school boards exercise this local autonomy by making decisions in some mandated areas and keeping

> *"A significant amount of a division's funds (at least 25%) should come from local sources. The rationale for this recommendation is that the effective governance and administration of a school division is dependent on communities and their sense of ownership and responsibility for their education system. If there is no identifiable local funding effort and contribution, it is easy for local politicians and administrators to diminish their engagement and sense of accountability for the success of the school system. They simply become the 'managers' of somebody else's system."*
>
> **Lloydminster Public School Division**

[30] The federal government retains responsibility for elementary and secondary education of Indian and Inuit people, armed forces personnel and their families, and inmates of federal penitentiaries. This is done either in separate federal schools or through tuition agreements with provincial school boards.

[31] Lawton, Stephen B. Financing Canadian Education. (Toronto: Canadian Education Association, 1996)

"One of the key items flagged was 'ensuring school boards do reduce taxes.'

Among various options itemized, though not pursued with any vigor, were mechanisms like capping school levies or making some portion of school grants conditional on school levy reductions. These options are the types of practical considerations that the Commission needs to address, if the final recommendations are to be truly innovative.

These options should also be investigated with some sensitivity to the need to maintain a degree of local funding autonomy for school boards. This principle is no longer universally recognized, nor upheld and practiced in all provinces, but it need not be entirely abandoned in order to examine some control mechanisms."

Saskatchewan Urban Municipalities Association

the right to establish spending levels at the school division level. They viewed having the authority to raise revenue as necessary to maintain local autonomy. They did not agree that it was possible to have an effective local government responsible for education without its own major revenue source.

The report concluded that taxpayer equity could improve with more progressive taxation policies, but Langlois and Scharf did not find a "right" level of provincial support for K-12 education. They believed the focus of the debate needed to go beyond the appropriate share of financial responsibility to the right level of resources to produce the right outcomes with increased accountability to the elector by both the school boards and the province.

The Canada West Foundation interviewed local and provincial government officials in six major western Canadian cities in May and July 2002 to explore relations between municipalities and school boards. The resulting discussion paper[33] pointed out that provincial control of education property tax may solve discrepancies between rich and poor school districts, but not without a cost. Respondents to their survey had two major issues.

First, they believed it was unfair for local property tax from one school board to be used to subsidize another school board. Second was the substantial loss in autonomy for school boards. When school boards lose virtually all their local taxation power they must rely on provincial funding for programs and services. If they are unsuccessful in lobbying the province for money they need, they are forced to make program and service decisions, such as school closures, that they might not make if they could raise the money locally.

"Every child has a right to an appropriate education, and to equality of education opportunity. In a liberal democracy,

i) a balance must be maintained between local governance as a means by which political power can be decentralized and the educational and welfare rights of citizens, parents and students can be protected, and central governance as a means by which the state's obligations to ensure that all children receive at least a minimal level of education and that future economic and social needs of society can be met;

ii) participation in the political process should be widespread, responsible, and intelligent; elected officials should be held accountable for their actions by their community; and, citizens should have the opportunity to legitimately participate in the political/ governance processes associated with the full range of functions assigned to that governance structure and for services to be received by those citizens;

iii) the local governance boundaries should encompass a "community" within which there is frequent and extensive formal and informal communications; and,

iv) education should be controlled by laypersons serving as "trustees of the 'public good'."

School Finance and Governance Review – Issues and Background Information 1990

[33] Langlois, Herve O. and Scharf, Murray P. School Finance and Governance Review: Final Report. (Saskatchewan, 1991).

[33] Jones, Evan. Urban Education: Exploring the Relationship Between School Boards and Municipalities. (Alberta: Canada West Foundation, 2002)

Assertion #7 – "The Foundation Operating Grant is not working."

The Foundation Operating Grant is a program the province uses to distribute provincial funding to school boards. All of these funds come from general revenues. Many people told the Commission that the program is not distributing the funds fairly.

What have we heard?

We heard that the way in which the current provincial funding was distributed was flawed:

- Some school boards are not receiving a grant, so something must be wrong with the system.
- The basic rates used for recognized expenditures are different for rural and urban boards.
- The expenditure amounts recognized in the formula don't represent actual school board expenditures.
- The heavy reliance on assessment to equalize the relative wealth of school boards creates substantial changes to the grant in years of reassessment. This causes instability in the system.

Despite this, some said that the current equalizing formula is still the best method to distribute provincial funding.

What have we found so far?

Provincial funding for K-12 education in Saskatchewan is distributed through the Foundation Operating Grant formula. It is designed to take into account the costs of providing education services and a school division's ability to pay.[34] The grant formula is intended to mitigate the variability in ability to raise revenue. As enrolments increase, the level of recognized expenditures will increase and the grant may increase. The opposite is true as enrolments decrease.

The ability of a school division to raise revenue locally, or its relative ability to pay, is measured by its property tax assessment base multiplied by a provincially determined equalization factor. When a school division's fiscal capacity increases as a result of an increase in assessment, its grant will be lower. Again, the opposite is also true.

Two trends have come together in the last few years to reduce the operating grant's ability to equalize student opportunities and ratepayer effort. The first is the growth in the value of assessment in some school divisions partially because of the 1997 reassessment and partially because of the growth in the resource sector. This resulted in very high recognized revenues for these divisions.

The second trend is declining enrolments, which result in lower recognized expenditures. The relatively new phenomenon of zero grant school boards illustrates this. These are school divisions in which recognized revenues exceed recognized expenditures in the operating grant formula. They are in fact able to generate more revenue at the equalization rate than they require to cover the recognized expenditures for their students. Under the current operating grant formula, the affected school divisions will not receive any provincial grant.

This situation has affected the operating grant for a number of years. Until recently it was limited to one or two very small rural school divisions. The government decided to allow the grant to be zero with no penalty or recovery from the school division for excess local tax revenues.

The 1997 reassessment created the first major school division with a negative calculation even though a temporary

"There is a wide variation in the fiscal capacity of school divisions to raise tax revenues because there are significant differences in the amount of assessment within each school division. Because of this, there is a great disparity in the amount of spending per student among school divisions. The Foundation Operating Grant was established to address equity in educational opportunities for students across all school divisions. This method of attempting to equalize funding no longer works, as many boards in the province receive no grant from the province and some are in a negative grant position."

Estevan Public School Board

[34] *We are grateful to Saskatchewan Learning for providing this background on the grant program.*

reassessment cap was put in place. Without that cap, 14 school divisions would have had zero grants with total excess local revenues of $7 million. For 2003, it is expected that 18 school boards will receive no grant from the province. These 18 boards will have potential for excess local revenues of approximately $18.5 million.[15] Some argue that these excess local revenues should be available to all of the K-12 education sector so that ratepayer burden and educational opportunity can be properly equalized across the province.

Within the Foundation Operating Grant, recognized expenditures range from basic rates, to funding for special needs, shared services, community schools, School[PLUS] implementation, transportation, and technology, to recognition of northern, francophone, isolated schools and enrolment decline factors, among others. Most of the recognition is on a per student basis and most of the funding is unconditional. School boards have the flexibility to spend it according to local needs, subject of course to meeting the obligations under *The Education Act*. Basic rates are different between urban and rural boards, with rural boards receiving a higher basic rate.

A variety of distribution formulas are used across Canada and the United States. None are deemed to be perfect. Governing bodies continually strive to improve the effectiveness of these formulas. We heard that the grant system in Saskatchewan is flawed, but still may be the best way to distribute funds from the province. We see building evidence that the fundamental principles of the Foundation Operating Grant are sound, but it is time for a change in the formula itself.

"The Foundation Operating Grant is the key component when dealing with variations in fiscal capacity among school divisions. Unfortunately, the formula has also been subjected to political interference. Decisions to move the student rates from a three level system to a two level system shifted millions of dollars from rural jurisdictions to smaller city areas."

Turtleford School Division

"School finance systems need more than repair; they need to be reinvented and aligned to standards-based reform, which is now being implemented, in one form or another, by most provinces. The new finance systems should rest on a concept of quality education for all children, not basic or minimum education. They should pay the full cost of education, including the cost of facilities, preschool, and non traditional models for delivery of education programs. They should also include funding targets to ensure that the province is accountable for resources while the schools and students are accountable for results."

Board of Education Saskatoon Catholic Schools

"The foundation grant formula as a method of distributing provincial grants to school boards is still the best method to accomplish that purpose. Problems have occurred with regard to the formula because recognized expenditures have fallen considerably below the level of actual expenditures of school boards. In the past few years, the formula has been changed to try to address short term problems such as reassessment, small schools and zero grant boards. The result has been the effectiveness of the formula has been distorted."

Saskatoon (West) Board of Education

[15] Saskatchewan Learning 2003

Assertion #8 – "Expenditures need to be examined."

The Commission was urged to look at more than the revenue side of the education system. It is important that we look at the expenditure side, especially since we collectively expect more from schools than has been their traditional role.

What have we heard?

The Commission heard consistently that we should consider the size of the education expenditure "pie". People wondered whether school divisions could do more to reduce expenditures by sharing services such as bussing. Some questioned, for example, the wisdom of three buses, each half empty, going down the same street at the same time for three different school boards. Others wondered whether we really need 99 school boards in a province of one million people.

We frequently heard concerns about duplication in the education system caused by the multiple school systems operating in Saskatchewan. The perceived duplication resulting from having a separate and public school system in many centres was raised most often. Comments and concerns were also expressed about further duplication with the minority language school system, the First Nations school system (not publicly funded by the province), historical high schools, associate schools, Hutterite schools, and home-based education. The issue of restructuring the education system was brought up at virtually every meeting.

People also brought up the question of what we are expecting schools to do, the cost, and who is paying that cost. We found wide spread support for the concept of School^{PLUS}. However, we also heard concerns about why school boards are expected to support human services delivery at the community level without receiving provincial funding for these health, social and justice services.

What have we found so far?

Saskatchewan school board expenditures, even when adjusted for inflation, were lower than British Columbia and Alberta and were lower than the available average from 1994/95 to 1999/2000.

Figure 22 – Total Public School Expenditures Per Student (adjusted for inflation)

	BC	ALTA	SASK	MAN	ONT	QUE	NB	NS	PEI	NFLD	TOTAL
1994/95	6,517	6,005	**5,712**	6,379	7,134	6,505	5,638	5,241	4,820	5,232	6,726
1995/96	6,563	5,883	**5,633**	6,220	6,908	6,353	5,729	4,957	4,395	5,305	6,725
1996/97	6,507	5,852	**5,564**	6,149	6,804	6,111	4,336	4,849	4,570	5,377	N/A
1997/98	6,495	6,031	**5,750**	6,205	6,738	5,832	5,870	5,108	4,608	5,229	6773
1998/99	6,614	6,240	**5,712**	6,324	6,817	5,930	5,973	5,219	4,817	5,285	6,948
1999/00	6,673	6,217	**5,865**	6,269	6,552	6,293	6,396	5,493	5,460	5,429	7,075
2000/01	6,864	6,495	**6,051**	N/A	6,290	6,487	6,033	5,253	N/A	N/A	N/A

Source: BC Department of Education Inter-Provincial Education Statistics Project.

Over the last 26 years, from 1975 to 2001, school board expenditures after inflation have increased by 40%. After 1986, the majority of the expenditures were financed by property tax.

"The Board believes that any funding changes must include a thorough examination of expenditures. Simply adding more money to the system is not the answer. We must look at expenditures and perhaps even develop strict guidelines for school divisions in areas such as system pupil-teacher ratios. We may find that the present level of expenditures, provincially, is sufficient in a restructured, efficient and equitable system.

Funding changes must also incorporate funding support from other government departments such as health, social services and justice if the School^{PLUS} model is to be successful and sustainable."

Qu'Appelle Valley Joint Board

"We believe it is unreasonable for a Commission to examine only the funding of K-12 education, without developing a position on, and recommendations, that address the expenditure side of the ledger."

The North Saskatoon Business Association Taxation Committee

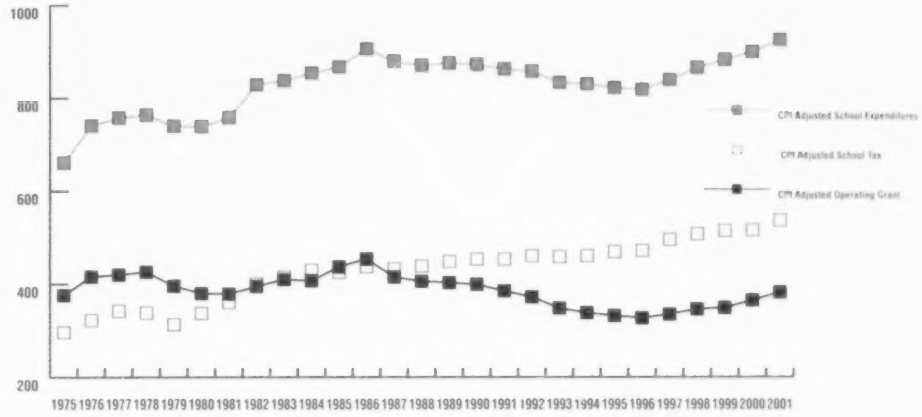
"Quality education will remain jeopardized if our political leaders do not put in place proper structures to guide our changing times. Other provinces are forcing amalgamation of school divisions and school boards. Some provinces have private firms owning the schools and renting them to the school boards."

Saskatchewan Home Builders' Association

"We do not believe the provincial government can change the ratio of provincial to local funding simply by injecting more money. In fact, this additional money, might delay the necessary rationalization of buildings, restructuring of jurisdictions, establishment of coterminous boundaries, and answers to difficult questions around how many publicly funded education systems are needed in a sparsely populated province. Although not part of the Commission's mandate, we believe it is equally important to look at how public funds are spent as well as our sources."

LandsWest School Division

Figure 23 – School Board Operating Expenditures, Property Tax Revenue and Provincial Operating Grants 1975 to 2001 Adjusted for Inflation ($ Millions)



Source: Saskatchewan Learning, Government Relations and Aboriginal Affairs, Statistics Canada.

Some of the people attending the public meetings and some of the briefs talked about the higher expectations on the school system for programs and services outside the traditional "education" programming. They showed considerable support for these existing programs and the implementation of the School[PLUS 36] model. At the same time, they were quite concerned that the expectations are there, but the provincial funding is not.

Dr. Tymchak and his task force colleagues[37] identified a number of factors, which taken together represent enormous changes, challenges and opportunities for schools. They included:

- the growing number of special needs children in regular school settings
- growth in the number of school aged children of aboriginal ancestry
- poverty and the growing number of children at risk
- movement of children between schools and school divisions throughout the school year
- the indirect impact on students of the changes in family structure
- the expectation and need for schools to work with and interact with multiple agencies like Health, Social Services and Justice
- decline in the rural population and impacts on the rural economy
- student violence, attitudes and behaviour

The Task Force on the Role of the School concluded with a proposal "... to re-create school and human service in the image of children and youth..." which would require "...a generous commitment of human and financial resources in the cause of a brighter and better future". The budget proposed to implement the task force recommendations was nearly $44 million in the first year (almost $40 million for education) and about $70 million per year for the years 2002 to 2005 (almost $53 million per year for education).

[36] *Saskatchewan Learning. Annual Report 2002-2003. (Regina: 2003) 19. States that "School[PLUS] recognizes that schools today have two primary functions: to educate children and youth, and to support human services delivery at the community level."*

[37] *Tymchak, M., and Saskatchewan Instructional Development & Resources Unit (SIDRU). School[PLUS]: A Vision for Children and Youth Toward a New School, Community and Human Service Partnership in Saskatchewan. Final Report to the Minister of Education, Government of Saskatchewan. (Regina, 2001).*

These numbers seem high, but several American studies[38] argue that the average extra cost just to meet service expectations for high need and high risk students can be up to three times the cost to provide services to the "average student".

One topic that came up consistently in our discussions was the number of school boards in Saskatchewan and the need for restructuring the school divisions. In 2001-02 we had more school boards than any other province in Canada. In 2001, the province announced financial incentives to encourage school divisions to voluntarily amalgamate by the October 2003 school board elections. These incentives consisted mainly of assistance calculated per student to help with the transition to a new structure and a form of provincial grant protection.

Through voluntary restructuring, it is expected that we will have about 80 school divisions by January 1, 2004.[39] This will still leave us with the highest number of school divisions in Canada.

Saskatchewan's expenditures per student don't seem to be out of line with those in other Canadian provinces, particularly our closest neighbours. Meeting the needs of students in our modern society seems to be a challenge both programmatically and financially. We need to look at this further in the context of the "right" provincial contribution to education and in the context of how much of these costs should really be borne by the local taxpayer. This is particularly true considering the projected long-term decline in student enrolments.

"A wise man once said that for every complex problem there is a simple, and completely wrong, solution. I urge this Commission to avoid the trap of embracing simplistic short-term solutions. We did not get here overnight and I believe that it will take a sustained, joint effort over time to get us all back on track. I would suggest that there may well be a variety of remedies available to address the current problems evident in the Funding of K-12 Education in our province. It may be that the ultimate 'cure' lies in a careful blending of several strategies (including the ongoing voluntary amalgamation of School Divisions) to achieve the desired long-term solution."

Thunder Creek Board of Education

[38] Odden Allan, Monk, David, Yasser Nabib and Picus Lawrence. The Story of the Education Dollar. No Academy Awards and No Fiscal Smoking Guns. On-line Article. See also Reschovsky, A. and Imazeki, J. The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students Developments in School Finance, 1997-Does Money Matter? On-line Article.

[39] School Finance Branch, Saskatchewan Learning, September 2003.

Implementation Suggestions

5

Many of the people and groups we heard from believed K-12 education, like health, is a provincial responsibility. Since the results of the education system benefit everyone in society, everyone should pay.

People were vocal about the fact that the current way of financing education is not working and significant and meaningful change is necessary to resolve the problem. At the same time they cautioned that the recommendations must address the problems in the long term and should be phased in so that school boards and taxpayers have time to adjust to the changes.

We heard concerns that changes to the current tax structure might result in overall tax increases. People saw this as inappropriate and cautioned the Commission to make sure that any increase in other taxes results in the same decrease in property tax.

We also heard that changes to other taxes should be transparent and dedicated to paying for education. Many people thought that a dedicated tax for education and health was a good idea and suggested bringing it back in some form.

Some thought these changes would solve problems for municipal governments, who have been holding the line on their portion of the property tax bill. Others cautioned the Commission to make sure that municipalities don't take up any tax room created by a reduction in local property tax.

"I will also suggest that the property tax base should be there as a municipal government tax base. This would provide an element of local autonomy, allowing the elected municipal councils to service the properties that they are taxing and to provide those services that have been determined to be their responsibility. If education funding was removed from the property tax base, the municipal governments should not have to go begging to the provincial government in order to survive, the need for provincial revenue sharing could be eliminated as could infrastructure grants except possibly for extreme cases and the controversial and unaffordable SAMA could probably be eliminated."

Town of Kyle

Many people told us they understood that the topic of education financing is complex and there are no simple answers. Many acknowledged that the solution would probably not be just one "magic bullet", but a combination of different strategies.

"If the common goal is to deliver a fair, equitable, and high quality learning experience, which will in harmony and with efficiency deliver:

- *The 'best practices' that our educators desire to deliver,*
- *The 'best accountability' that the funding stakeholders deserve,*
- *The 'best tax structure' that we all reasonably expect, and*
- *The 'best educated and confident youth' that our future depends upon;*

Then we believe that everyone will vigorously 'buy-into' supporting significant and meaningful change."

North Saskatoon Business Association Taxation Committee

"Bring in a recommendation that can be worked in over a series of years that doesn't leave school boards scrambling trying to balance budgets... Now they are talking about reassessment again with 20 to 30 percent reduction in assessment on our side of the province. How can you make any budget plans with this all happening?"

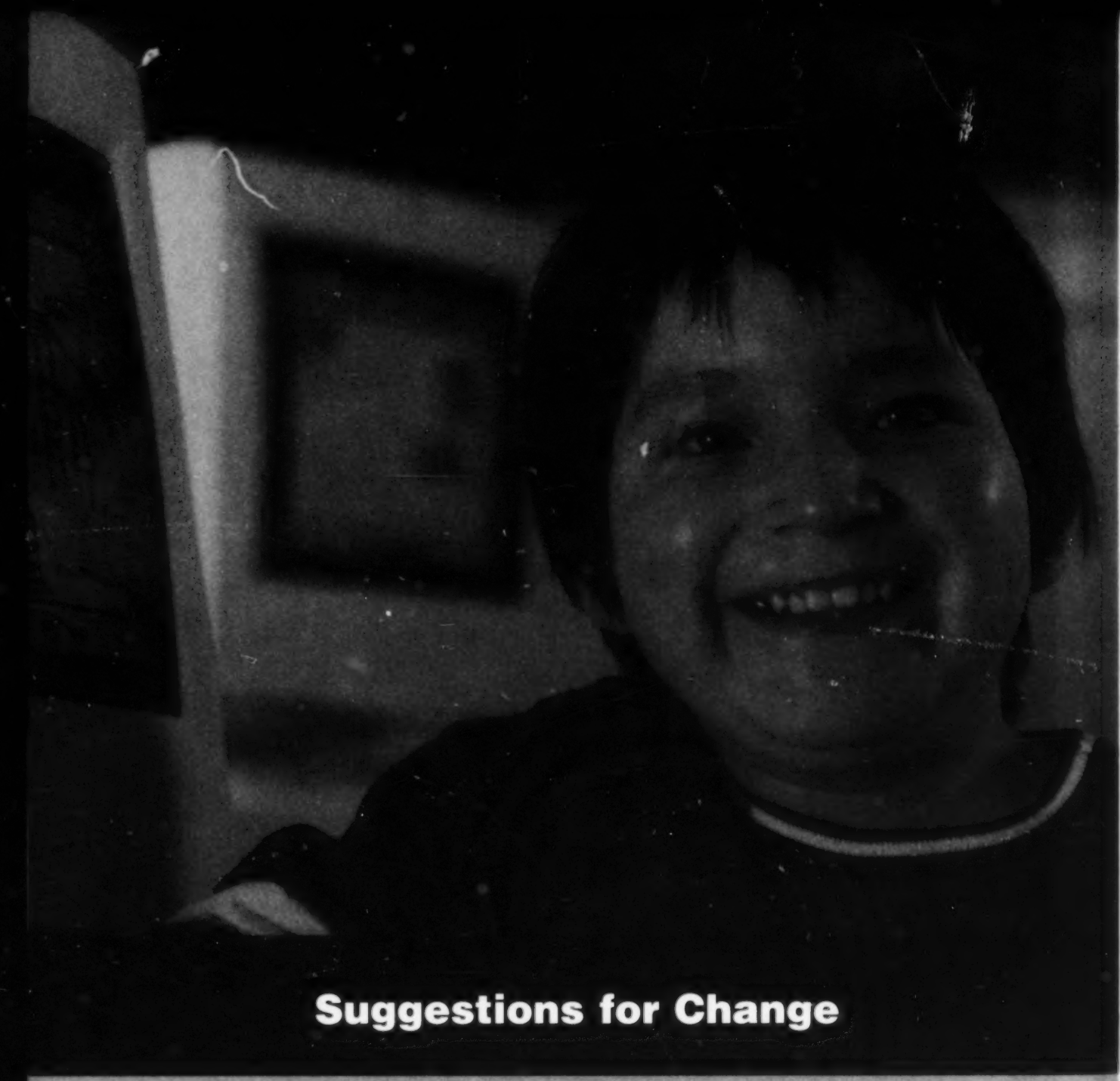
Victor Hult

"I urge the Commission to recommend a cautious approach to changes in the structure of educational funding, lest we destroy a long established and cherished concept of 'access to all'."

Dale Shauf

"What is crucial is the admission that good intentions alone have not carried us closer to reducing the school tax burden on property over the last decade. More concrete commitments and practical programs must emerge before progress will be made."

Saskatchewan Urban Municipalities Association



Suggestions for Change

6

So now that we've heard the concerns with the system, what is the best way to tackle the problem? We heard a number of suggestions to reform the system. Most people acknowledged that there are no easy solutions and that the changes will take time to implement. Many people felt that since there is no magic solution, a combination of recommendations was likely required. This section outlines various suggestions made throughout the consultation process in meetings, written submissions and letters.

The items below are not presented in any particular order; however, we have grouped them into a number of categories as they seem to have some similarities. We would like to point out that for almost every suggestion, we heard an equally strong opposing point. The following is a list of the many suggestions received thus far and does not reflect the frequency with which the suggestions were made.

Find a different revenue source – Some felt that property taxes should simply be reduced without a corresponding increase in any other form of tax. However, the majority of people recognized that there is only one taxpayer and the money needs to be found somewhere. We heard a number of suggestions to fund a reduction in property tax with a corresponding increase in a different type of tax or to find a different revenue source altogether.

- Add 1 or 2% to the Provincial Sales Tax (PST).
- Reduce the PST (to perhaps 3%), rename it the "General Service Tax" and establish a new "Education and Health Tax" (set at perhaps 4%) with funds dedicated specifically to the education sector.
- Increase the fuel tax.
- Increase personal income tax.
- Use lottery money to fund education.
- Establish a poll tax (a flat tax assessed against all adults or against all income tax filers).
- Establish an "e-fee" (a fee on the purchase of all goods and services that is dedicated to education costs).
- Tax all wealth equally. Someone with $1 million worth of land would pay the same wealth tax as someone with $1 million in investments.
- Make property taxes income tax deductible for everybody not just for farmers and business owners.
- Municipal governments have the ability to generate revenue through other taxes and user fees. School boards should have similar abilities to raise revenue, perhaps even through new items such as a residential or income tax.
- Ask the federal government to contribute to education in the province.
- Leave the system as it is and seek federal assistance for agricultural income relief.
- Simply reduce the reliance on property tax to eliminate the problem. This would stimulate business and create more tax revenue.
- Establish user fees: those who use the education system should pay more (or should be the only ones contributing).
- Everyone in the province needs to pay their fair share.

Change how property tax is derived and levied –

- Review the property assessment system.
- Establish a base property tax that every homeowner would pay.

"I realize this might mean an increase in our provincial income taxes or PST, but I think this would be much fairer as this cost would then be paid by all taxpayers."

Harley Toupin, Regina

"Municipalities at all times have insufficient funds to meet the demands of the taxpayer. What an opportunity to significantly increase the municipal taxes if the school tax were removed from the tax bill."

Fred Sutter, Saskatoon

"... The Council hopes that this Commission will focus its time and resources on funding education from other sources of taxation rather than trying to defend the status quo. Property owners are demanding that education taxes be removed from the property tax system... The Council supports an 'Income Based Education Tax'... a tax based on income would reflect ability to pay ... The Council would like the Commission to recommend the removal of education taxes from property and that the education taxes come from some other sources of taxation that are fair and equitable to all people in this province."

RM of Bjorkdale

"In reviewing the various submissions to date, CFIB was amazed at the number of stakeholders who have suggested increases in various forms of taxation as a means to fund the revenue shortfall. CFIB questions how an increase in taxes supports one of the Commission's guiding principles to maintain or improve tax competitiveness for Saskatchewan? CFIB vehemently opposes any plans that would see an overall increase in taxes. By increasing taxes, CFIB believes the government would essentially undo all of the hard work of recent years, which have seen lower personal income tax and corporate income taxes. The PST is a significant business tax and any increases in the tax would only serve to drive up the cost of doing business in the province. While spending on education is important, CFIB recommends the money needed to support this should be taken from lower priority spending initiatives. The Commission should review the cost of public education in Saskatchewan and recommend ways for further cost reductions, as well as school division amalgamations."

Canadian Federation of Independent Business

- Set and collect taxes on the basis of a provincial mill rate equal to the equalization factor (17.4 mills) or lower.
- Collect the resource/commercial/industrial property tax provincially and distribute it to all school divisions rather than it remaining in the community to be shared only amongst local school divisions.
- Set different percentages of value for small businesses and large commercial/industrial entities.
- Support the integrity of the assessment base by not tampering with the relative taxable values of the different property classes.
- Assess education property taxes against residences only (i.e. farmers should pay on their homes, not their land).
- Cut the percentage of value on which farmland is assessed. Some suggested using a sliding scale for farmland or assessing it based on productivity.

Examine government priorities –
Many expressed the view that you can't just look at new revenue sources, you also need to examine how the provincial government allocates its money.

- Reprioritize government spending.
- Dedicate a certain percentage of future economic growth to reducing school property taxes.
- Get more funding from the departments of Justice, Health and Social Services to help cover the cost of special needs students and School^{PLUS}.
- Allocate more money to education from general government revenues.

Look for efficiency –
The Commission heard that the education system needs to be made more efficient and less costly:

- Amalgamate school divisions.
- Reduce the number of school districts so that they reflect a standard size.
- Set common boundaries for Education, Health, Social Services and Justice.
- Establish an independent budget review committee to examine school division budgets.
- Establish an education auditor's office to monitor the efficiency of the education system from the classroom to the ministry.
- Cap school levies and/or mill rates.
- Place a limit on property tax for the costs of education.
- Reduce duplication in the multiple systems we operate (i.e. public, separate, First Nations, francophone, historical high schools, associate schools, private schools and home schooling).
- More divisions should explore shared services options and find ways to better share resources.
- The K-12 system and the post-secondary system need to work more closely together.
- Look at the voucher system and charter schools to offer families more choice.
- Examine school boards that have demonstrated effectiveness and efficiency to determine if "best practices" could be established and emulated in other areas.

Change the funding distribution approach –

- The government should pay for the basics (for the core curriculum) and school divisions should pay for the extras.
- Since government controls negotiations on teacher salaries, the government should pay for those salaries.
- Explore mechanisms like capping school levies or making some portion of school grants conditional on school levy reductions.
- Make more of the grant unconditional.
- Set the computation mill rate for the grant at the average mill rate across divisions.

"As long as the existing principles of market-value property assessment system remain in place, we believe that all property classes should be treated similarly in a future of reduced school tax levies.

Despite earlier acknowledgement of this principle by various provincial officials, a two-year, 25% rebate of school taxes was recently applied only to agriculture properties. Nevertheless, this class of properties continues to carry a school tax share lower than their percentage of total property assessment in the province. If assistance is required for the agricultural industry, it is our view that this is not best approached with a discriminatory policy of exclusive school tax relief. All classes of property are still looking for substantial school tax relief."

Saskatchewan Urban Municipalities Association

"Give our children funding from the largest possible tax bases, not the narrowest ones."

Moose Jaw Real Estate Board, Inc.

"Appropriate and fair taxes, used efficiently to support valued programmes that enhance our society, are not burdens, they are investments."

Lloydminster Public School Division

"Saskatchewan cannot afford large scale amalgamations of school divisions. The ensuing costs to negotiating employee contracts to the highest common denominator will create the same problems that the health system is facing."

Tisdale School Division

"With regard to the creative use of our various, yet limited resources, we believe that every stakeholder needs to commit to new and out of the established methods of thinking. We all need to be willing to examine questions that go to the best use of our resources, even when they challenge established practices. There can be no sacred programs that ought not to be examined or are beyond positive and progressive reform.

Certainly, the traditional basics of 'reading, writing, and arithmetic' augmented with the necessities of life, such as research and communication skills, computer and technology awareness, and life preparation skills, have to be maintained. However, even with these basics, we need to re-examine the means of delivery and construct a means of accountability to the Students, the Parents and the Taxpayers, not to the Administration, the Board or the Ministry."

North Saskatoon Business Association Taxation Committee

"School boards must receive the major portion of their funding unconditionally and must retain access to the property tax base...

To enable boards in making the transition without negatively impacting on student learning, we would encourage Saskatchewan Learning to provide a transition period as funding levels are adjusted."

Estevan Rural School Division Board of Education

"Since the new farmland ownership rules in Saskatchewan, it has become even more important to retain a property based tax for the support of education."

John Barbier, Vanguard

"Perhaps a shift to taxing the home quarter the highest and using a sliding scale for remaining farm land may address this question."

Humboldt School Division

Where do we go from here?

7

At this stage of our journey it is not possible to draw definitive conclusions on any of the issues. We still need to hear from more people and we have a lot of research to complete. However, what we heard and what we know so far are not only leading us, but in fact pushing us, in some very clear directions.

First, it is clear that those we spoke with believe property taxes are too high and must be reduced. There are two main reasons people seem to feel this way:

1. Property tax is not related to ability to pay.
2. The benefits received from the education portion primarily benefit the whole province, not just the community.

Years of study and research in many jurisdictions point to the inappropriateness of relying heavily on local property tax to support social programs like K-12 education. Property tax, by its current definition, does not tax all wealth, such as RRSPs and other monetary investments. Many question how closely it approximates ability to pay, especially with low income, variable income and fixed income property owners. These issues become even more important when governments rely more heavily on property taxes. Our research so far shows that our reliance on education property taxes is higher in Saskatchewan than other provinces.

The concern with property taxes is compounded by the feeling that the property assessment and tax policy system is not working. We know that the current systems have been subject to significant policy changes which have created swings and rapid increases in some areas. Some believe the changes have simply shifted inequities around rather than solving them. Overall, there is little confidence in the property assessment and tax policy system.

Second, we heard that not only do property taxes in Saskatchewan need to be reduced, but the province must increase its share of funding for the education system. This is more than a question of the "right" percentage. It is based on the principle that K-12 education is a broad social program, like health, and should be funded primarily by a broad tax base. But what is the right balance?

In terms of frequency of comments, reversing the share to 60% provincial, 40% local was quite popular. Whatever we conclude, it will not be practical to make this change overnight.

We also heard that maintaining some degree of local autonomy is important. From a practical and philosophical perspective, there is a growing concern that the current level of reliance on local revenue is inappropriate. But what is the best way to allow for local responsiveness and decision making?

Third, we heard that the current financing regime is causing inequities among school divisions. It is unlikely that we can conclusively determine either the existence or absence of inequity for students. The complexities and lack of available information make it difficult to prove whether or not equity for students exists. However, our research so far provides some evidence that there are inequities among ratepayers in school divisions.

We have also received some wise advice for implementing change. We heard about the importance of a long-term strategy that comprises a number of different components and is phased in over a realistic period. Importantly, any changes or combination of changes can not result in a higher tax burden overall. It is our intention to consider this advice as we develop recommendations.

People strongly believe the way K-12 education is financed must change. However, they did not just dump it on the Commission to fix. They came

"We believe that the province should investigate centrally taxing the commercial assessment (or at least the natural resource part of it) and redistributing it as part of the FOG. This would claw back the so-called negative grant assessment and would make some more funds available for distribution to the whole province. It would be important though not to shift funding from the rural to the urban divisions as a result."

Red Coat Trail Board of Education

forward with thoughtful and often creative solutions. We know that some of these solutions may not be possible. But what is clear is the general direction these suggestions are taking us:

- Implement the changes over a defined period of time, starting with some immediate changes.
- Decrease educational property tax. Some of this decrease may be funded through increases in other taxes and future provincial revenue growth. It may also require restrictions on the system(s) to make sure our recommendations have the intended outcome. The intent would be no overall increase in taxes.
- Reprioritize or reduce expenditures at the provincial or local level or both.

Over the remaining months, our major challenge and focus will be to:

- Test the findings emerging from our work so far.
- Determine the most effective way or combination of ways to reduce property taxes. By effective, we mean a way or combination of ways that are guided by our principles and are sustainable well into the future.
- Determine the best way to implement the changes so that students, taxpayers, school boards, municipalities and the provincial government can make a reasonable and orderly transition.

We invite you to critique this material and provide suggestions on our emerging thoughts and the direction outlined in this interim report. As we continue with our work, we look forward to the continued interest and support of the people of Saskatchewan. We agree that Saskatchewan has a strong education system. We believe it can become even stronger with a more stable and equitable funding system in place. The Commission is dedicated to developing recommendations that build upon the strengths of our system and honour the principles upon which it is based.

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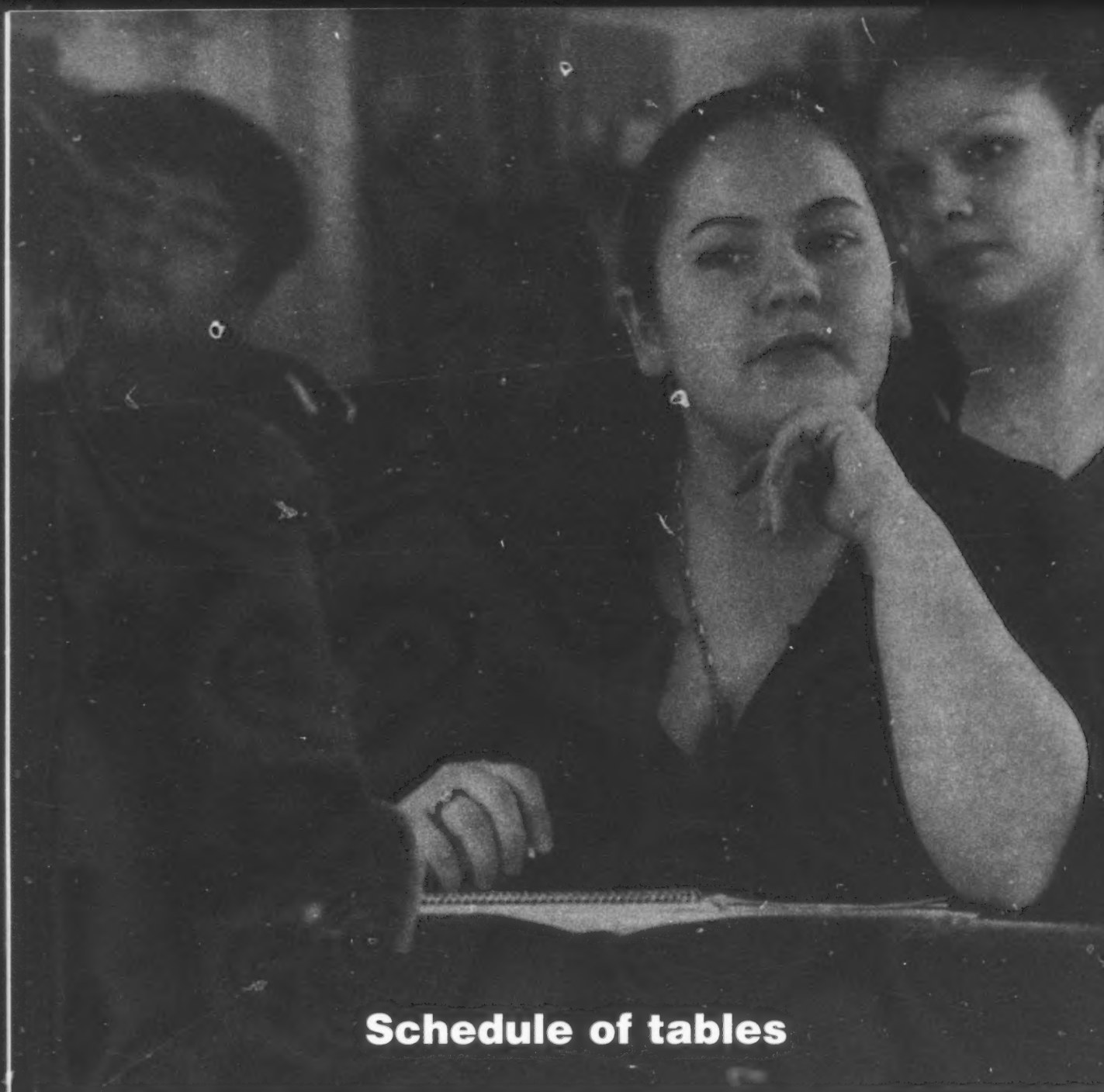
We received a lot of helpful comments, examples and information to help us better clarify the issues but most importantly, people rolled up their sleeves to help identify solutions as well.



Schedule of tables

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Table 1 – Major Tax Revenues as a Percentage of GDP – 1999

	Taxes on Personal Income	Taxes on Corporate Income	Social Security Contributions	Payroll Taxes	Taxes on Property	Taxes on Goods and Services
Canada	14.6	3.7	5.2	0.8	3.9	9.4
U.S.	11.8	2.4	6.9	n/a	3.1	4.7
Australia	13.2	4.9	n/a	2.0	2.9	7.6
New Zealand	14.9	4.0	n/a	0.3	2.1	12.9
Japan	4.8	3.4	9.7	n/a	2.9	5.3
France	8.1	2.9	16.6	0.9	3.2	12.3
Germany	9.4	1.8	14.8	n/a	0.9	10.6
Luxembourg	7.8	7.3	10.9	n/a	4.0	11.6
United Kingdom	10.5	3.8	6.2	n/a	3.9	11.7
OECD average*	10.1	3.3	9.5	0.4	1.9	11.6

Source: Canadian Tax Journal, 2002, Volume 50, Issue Number 3, Fiscal Figures: International Tax Comparisons

** There are thirty member countries in the OECD; for simplicity, the table shows only a representation of these countries. The complete list of countries and their tax rates will be provided in the Commission's Final Report. The average provided is for the full 30 member countries, not just the sample shown here.*

Table 2 – Provincial and Local Government Taxes and Fees as a Percentage of 2000 GDP

	Provincial Gov't Taxes and Fees	Local Gov't Taxes and Fees	COMBINED PROVINCIAL AND LOCAL GOV'T TAXES AND FEES	Provincial Gov't Property Taxes	Local Gov't Property Taxes	COMBINED PROVINCIAL AND LOCAL GOV'T PROPERTY TAXES [1]
NFLD	13.8%	2.3%	16.1%	0.0%	1.8%	1.8%
PEI	15.7%	1.9%	17.5%	1.2%	1.4%	2.6%
NS	13.2%	3.9%	17.2%	0.0%	3.2%	3.2%
NB	13.6%	2.6%	16.2%	1.2%	2.0%	3.1%
QUE	18.5%	4.6%	23.1%	0.0%	3.6%	3.6%
ONT	13.1%	5.4%	18.5%	0.2%	4.4%	4.4%
MAN	14.1%	4.4%	18.5%	0.6%	3.3%	3.9%
SASK	14.0%	4.8%	18.9%	0.0%	3.9%	3.9%
AB	8.4%	3.5%	11.9%	0.8%	2.4%	3.2%
BC	14.1%	3.3%	17.4%	1.3%	2.1%	3.3%

1) Includes grants in lieu, special assessments, other property related taxes.

Source: Statistics Canada

Table 3 – Property Taxes in Canada – 1998

	Average Property Taxes ($)	Effective Property Tax Rates (%)
British Columbia	1,430	0.65
Alberta	1,380	1.01
Saskatchewan	**1,480**	**1.76**
Manitoba	1,770	1.92
Ontario	2,230	1.22
Quebec	2,030	1.86
New Brunswick	900	1.13
Nova Scotia	990	1.13
Prince Edward Island	1,010	1.09
Newfoundland	640	0.90
Canadian Average	**1,830**	**1.22**

Source: Statistics Canada Survey of Financial Security: Property Taxes, July 2003

Table 4 – Provincial and Local Government Taxes and Fees Per Capita – 2000 ($)

	Provincial Gov't Taxes and Fees	Local Gov't Taxes and Fees	Combined Provincial and Local Gov't Taxes and Fees	Provincial Gov't Property Tax	Local Gov't Property Tax	Combined Provincial and Local Gov't Property Taxes
NFLD	3,610	612	4,222	–	478	478
PEI	3,790	450	4,239	289	338	628
NS	3,379	1,010	4,390	–	816	816
NB	3,547	688	4,235	312	509	821
QUE	5,597	1,402	6,998	5	1,093	1,098
ONT	4,818	1,999	6,817	73	1,606	1,678
MAN	4,161	1,330	5,491	186	980	1,166
SASK	**4,601**	**1,622**	**6,223**	**1**	**1,290**	**1,291**
AB	4,015	1,665	5,680	375	1,129	1,504
BC	4,424	1,069	5,493	409	673	1,082

Source: Statistics Canada

Table 5 – Inter-provincial Property Taxes Per Capita*
Federal Equalization Program – 2000-01

Province	Per Capita Property Tax Revenue
British Columbia	$980
Alberta	$1,180
Saskatchewan	**$1,172**
Manitoba	$857
Ontario	$1,429
Quebec	$858
New Brunswick	$729
Nova Scotia	$747
Prince Edward Island	$615
Newfoundland	$378
Weighted Provincial Average	$1,119

Source: Saskatchewan Finance: Equalization Data for 2001-02

**Averages include taxes paid by all taxpayers (not just individuals).*

The weighted provincial average is the per capita amount collected in total for the ten provinces.

Table 6 – Estimated Property Taxes for Canadian Cities – 2003 ($)

City	Detached Bungalow	Executive 2-storey	Standard 2-storey	Standard Townhouse	Senior Executive	Standard Condo
			Dollars			
St. John's (West), Nfld	900	1,600	1,400	700	1,800	1,000
Charlottetown, PEI	1,800	n/a	2,200	1,200	3,200	1,300
Fredericton, NB	1,675	2,815	1,774	1,689	3,603	1,238
Montreal (Kirkland), Que	3,750	5,125	2,075	2,075	n/a	2,025
Jonquiere, Que	1,670	2,850	2,279	1,634	4,303	1,628
Toronto (Etobicoke), Ont	3,000	4,500	3,500	1,900	5,500	1,550
Oshawa, Ont	2,414	3,279	2,370	2,118	3,600	1,681
Fort Garry, MB	3,318	4,800	3,001	1,357	3,997	1,357
Saskatoon (North), SK	**2,400**	**3,000**	**2,600**	**1,800**	**4,300**	**1,800**
Edmonton (West End), AB	2,085	2,726	2,378	1,206	4,176	916
Spruce Grove, AB	2,300	2,800	2,400	1,400	3,000	n/a
Vancouver (East), BC	2,700	3,300	1,475	1,475	3,900	775
Kelowna, BC	1,800	2,300	2,100	1,250	2,500	1,100
Average	**2,293**	**3,258**	**2,273**	**1,523**	**3,657**	**1,364**

Source: Royal LePage, Survey of Canadian House Prices Second Quarter, issue No. 4

Notes to the table:

- Estimated Fair Market Value for a Detached Bungalow Data is from cities where available.
- Where many cities had data, the community with the average house price for a detached bungalow was selected.
- Because of the large number of communities in Ontario, Quebec, Alberta and British Columbia, 2 communities were used in each of those provinces (one large city and a smaller community).
- Nova Scotia did not have estimated property taxes available for any housing type in this survey.
- In Saskatchewan, estimated taxes were only available for Saskatoon.

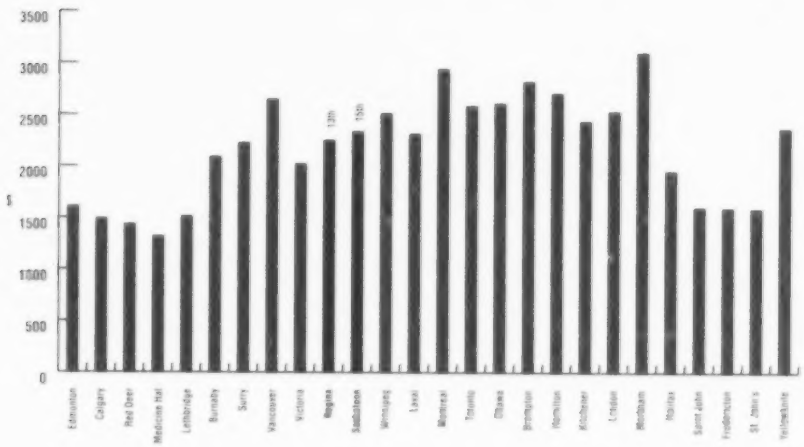
Table 7 – Estimated Property Taxes and Effective Tax Rates – 2003

City	Estimated Fair Market Value $	Detached Bungalow Estimated Taxes $	Effective Tax Rate %
St. John's (West), Nfld	117,000	900	7.69
Charlottetown, PEI	130,000	1,800	13.85
Fredericton, NB	119,000	1,675	14.08
Montreal (Kirkland), Que	164,000	3,750	22.87
Jonquiere, Que	87,100	1,670	19.17
Toronto (Etobicoke), Ont	330,000	3,000	9.09
Oshawa, Ont	164,800	2,414	14.65
Fort Garry, MB	140,000	3,318	23.70
Saskatoon (North), SK	**145,000**	**2,400**	**16.55**
Edmonton (West End), AB	180,000	2,085	11.58
Spruce Grove, AB	160,000	2,300	14.38
Vancouver (East), BC	360,000	2,700	7.50
Kelowna, BC	164,000	1,800	10.98
Average	173,915	2,293	13.19

Source: Royal LePage, Survey of Canadian House Prices Second Quarter, Issue No. 4

Note: The effective tax rate is calculated by dividing the estimated taxes by the estimated fair market value.

Table 8 – Property Taxes on a Sample House – 2002

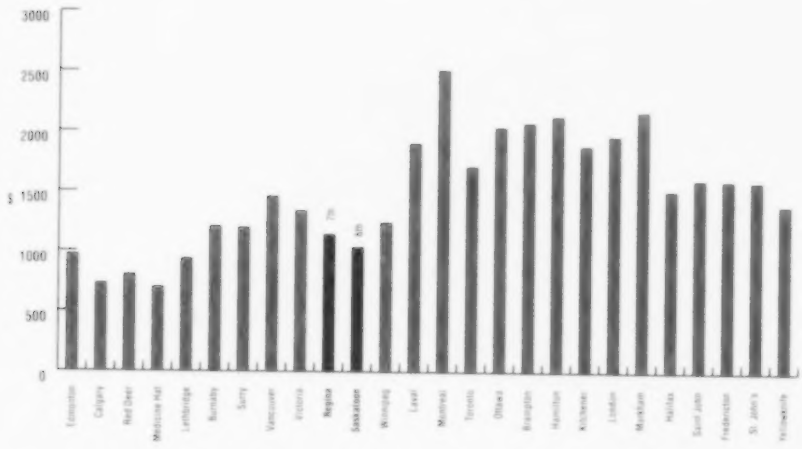


Source: City of Edmonton 2002 Residential Property Taxes and Utility charges Survey

Note to chart:

The Residential Property Taxes and Utility Charges Survey calculated net property tax by reflecting homeowner grants or credits for the cities of Burnaby, Surrey, Vancouver, Victoria and Winnipeg. However, it would not have reflected the property tax rebate provided to Saskatchewan agricultural producers in that year. For this reason, all homeowner grants, credits and rebates have not been included in the calculations.

Table 9 – Property Taxes (School Taxes Removed) on a Sample House – 2002



Source: City of Edmonton 2002 Residential Property Taxes and Utility charges Survey

Note to chart:

The Residential Property Taxes and Utility Charges Survey calculated net property tax by reflecting homeowner grants or credits for the cities of Burnaby, Surrey, Vancouver, Victoria and Winnipeg. However, it would not have reflected the property tax rebate provided to Saskatchewan agricultural producers in that year. For this reason, all homeowner grants, credits and rebates have not been included in the calculations.

Table 10 – Property Taxes Per Acre – 2001

	2001 Net Property Taxes ($000)	2001 Number of Farms	Property Taxes Per Farm ($)	Acres (000s)	Taxes Per Acre ($)
Quebec	113,465	32,139	3,530	8,444	13.44
Ontario	84,823	59,728	1,420	13,507	6.28
Prince Edward Island	2,683	1,845	1,454	646	4.15
CANADA	590,238	246,923	2,390	166,802	3.54
Manitoba	59,719	21,071	2,834	18,784	3.18
Saskatchewan	**198,720**	**50,598**	**3,927**	**64,904**	**3.06**
Nova Scotia	3,034	3,923	773	1,006	3.02
British Columbia	17,643	20,290	870	6,393	2.76
New Brunswick	2,623	3,034	865	959	2.74
Newfoundland	231	643	359	100	2.31
Alberta	107,297	53,652	2,000	52,059	2.06

Source: Saskatchewan Agriculture, Food & Rural Revitalization, 2002

Table 11 – Property Taxes as a Percentage of Gross Farm Operating Expenses (After Rebates)
All Provinces and Canada – 1995 to 2001

	1995	1996	1997	1998	1999	2000	2001
CANADA	2.3%	2.2%	2.2%	2.2%	2.1%	2.0%	1.8%
British Columbia	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%
Alberta	2.2%	2.1%	2.1%	2.1%	1.9%	1.8%	1.7%
Saskatchewan	**4.5%**	**4.2%**	**4.4%**	**4.5%**	**4.5%**	**4.3%**	**3.6%**
Manitoba	2.4%	2.4%	2.4%	2.4%	2.5%	2.4%	2.2%
Ontario	1.8%	1.8%	1.8%	1.5%	1.4%	1.3%	1.3%
Quebec	1.2%	1.3%	1.3%	1.4%	1.2%	1.1%	0.9%
New Brunswick	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%
Nova Scotia	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Prince Edward Island	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%
Newfoundland	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%

Source: SAFRR 2002 (Stats Canada)

Table 12 – Summary of Agricultural Property Taxation

	B. C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P. E. I.	Nfld.
Tax base										
Land	yes	yes	yes	yes	yes	yes	yes	exempt	yes	business tax
Buildings	mostly exempt	mostly exempt	no	yes	yes	yes	yes	yes	yes	business tax
Residences	mostly exempt	mostly exempt	no	yes	yes	yes	yes	yes	yes	yes
Assessment Ratio										
Land	10 - 15%	10 - 40%	50 - 70%	30%	100%	100%	100%	exempt	10 - 50%	100%
Buildings	100%	100%	exempt	30%	100%	100%	100%	100%	100%	100%
Residences	100%	100%	exempt	45%	100%	100%	100%	100%	100%	100%
Nominal Tax Rates										
Land	0.7 - 1.5%	1.4 - 1.5%	2.3 - 3.6%	3.0 - 4.8%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	exempt	0.05 - 1.74%	0.0 - 1.0%
Buildings	0.7 - 1.5%	1.4 - 1.5%	exempt	3.8 - 5.6%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	0.8 - 1.05%	0.05 -1.74%	0.0 - 1.0%
Residences	0.7 - 1.2%	1.0 - 1.5%	exempt	3.8 - 5.6%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	0.8 - 1.05%	0.05 -1.74%	0.0 - 1.0%
Agricultural Tax Programs										
Rebates					before 1998	yes				
Exemptions	yes	yes - buildings	yes - buildings	yes - ESL on land				yes - land		yes
Deferrals Assessment	yes	yes	yes	yes		yes - education	yes	yes	yes	
Maximum Tax Rate					since 1998		yes			
Effective Tax Rate										
1996	0.14%	0.38%	0.90%	0.67%	0.23%	0.49%	0.37%	0.30%	0.29%	0.14%
1997	0.13%	0.36%	0.90%	0.65%	0.21%	0.47%	0.35%	0.29%	0.26%	0.14%
Effective Tax Rate (with adjustment for residences)										
1996	0.14%	0.30%	0.66%	0.67%	0.23%	0.49%	0.37%	0.30%	0.29%	0.14%
1997	0.13%	0.28%	0.68%	0.65%	0.21%	0.47%	0.35%	0.29%	0.26%	0.14%
Effective Tax Rate (with adjustment for residences and asset values)										
1997	0.13%	0.28%	0.68%	0.65%	0.42%	0.53%	0.33%	0.29%	0.31%	0.14%

Source: "Agricultural Property Tax Concessions and Government Transfers to Agriculture, October 2002" Agriculture and Agri-Food Canada, December 2002, pg. 45, table 5.1

Table 13 – Percentage of Revenue for Public K-12 Schools 2001-02

	Local	State	Federal
Median	42.9	49.7	7.5
High	85.4	89.3	15.3
Low	1.7	28.5	2.6
High	District of Columbia	Hawaii	Mississippi
Low	Hawaii	Nevada	New Jersey

Source: Rankings and Estimates. National Education Association, May 2003 p.41 & 42

Table 14 – 2002 Provincial and Territory Comparison of Funding Sources for Education

Province or Territory	A Locally Levied Property Tax (% of Total)	B Provincially Levied Property Tax (% of Total)	C Total Portion of School Funding Raised From Property Taxation (% of Total)	D Provincial General Revenue Contribution to Education Cost (% of Total)	E Total Provincial Share of Education Cost (% of Total)
British Columbia	0	28	28	72	100
Alberta	0	36	36	64	100
Saskatchewan	58	0	58	42	42
Manitoba	33.3	13.1	34.9[1)*3)]	60.6[2)*3)]	73.7
Ontario	0	38.8	38.8	61.2	100
Quebec	21.8	0	21.8	78.2	78.2
New Brunswick	0	0	0	100	100
Prince Edward Island	0	0	0	100	100
Nova Scotia	16.9	0	16.9	83.1	83.1
Newfoundland	0	0	0	100	100
Northwest Territories	7.1	2.5	9.6	90.4	92.9
Yukon Territory	0	0	0	100	100
Nunavut	0	0	0	100	100

Note: For the Province of Manitoba:

1) Total of A and B, 46.4%, is reduced by 11.5% to reflect the application of the property tax credit for a net total of 34.9%.

2) Provincial general revenue includes 43.1% for operating and capital grants, 11.5% for the property tax credit and 6.0% for provincial contributions to the teachers' pension fund for a total of 60.6%.

3) Columns C and D add to 95.4% instead of the normal 100%. The remaining 4.6% represents the portion of revenue received by school divisions from non-provincial sources (e.g. Federal Government, First Nations Bands, etc.).

Source: June 2003 Survey of Provincial and Territory Departments of Education. Prepared by Saskatchewan Learning.

Commission on Financing Kindergarten to Grade 12 Education

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